PEGAS NONWOVENS
every single detail

Annual Report 2011

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1 Introduction

PEGAS NONWOVENS SA (HEREAFTER “PEGAS” OR “THE COMPANY” OR “GROUP”) IS ONE OF THE LEADING EUROPEAN PRODUCERS OF NONWOVEN TEXTILES FOR USE PRIMARILY IN THE PERSONAL HYGIENE PRODUCTS MARKET. PEGAS SUPPLIES ITS CUSTOMERS WITH SPUNBOND AND MELTBLOWN (TOGETHER „SPUNMELT“) POLYPROPYLENE- AND POLYPROPYLENE/POLYETHYLENE- BASED („PP“ AND „PP/PE“) TEXTILES PRINCIPALLY FOR USE IN DISPOSABLE HYGIENE PRODUCTS (SUCH AS BABY DIAPERS, ADULT INCONTINENCE AND FEMININE HYGIENE PRODUCTS) AND, TO A LESSER EXTENT, IN CONSTRUCTION, AGRICULTURAL AND MEDICAL APPLICATIONS.

Founded in 1990, the Company has grown over the past 20 years and based on 2010 annual production capacity has become the second largest European producer of spunmelt nonwovens. Currently PEGAS runs two plants with a total of 9 production lines in the Czech Republic and an additional production line in Egypt is under construction. The total production capacity of the Company is currently up to 90 thousand tonnes of nonwoven fabric per annum. PEGAS consists of a parent holding company in Luxembourg and four operating companies, PEGAS NONWOVENS s.r.o., PEGAS-NT a.s., PEGAS - NW a.s. and PEGAS - NS a.s., all located in the Czech Republic. For the purpose of international expansion of PEGAS NONWOVENS SA a new company PEGAS NONWOVENS International s.r.o. was established in 2010 and subsequently PEGAS NONWOVENS EGYPT LLC was established in June 2011, which invests in the Egyptian production facility. At the end of 2011, PEGAS employed 424 people.

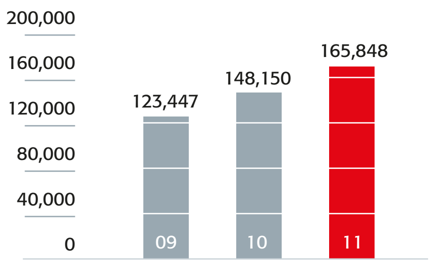
Shares in PEGAS are listed on the Prague Stock Exchange and on the Warsaw Stock Exchange, following an Initial Public Offering in December 2006. 100% of the shares are free float, held by institutional and retail investors. The Company’s management together held 0.9% of the shares as of 31 December, 2011.

PEGAS is a member of the European Disposables and Nonwovens Association (EDANA).

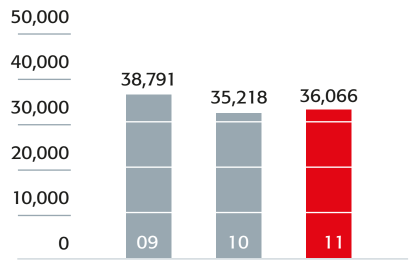
2 Year 2011 in Brief

Financials (EUR thousands)	2011	2010
Total Revenues	165,848	148,150
EBITDA	36,066	35,218
Profit from Operations	26,853	18,865
Net Profit for the Period Attributable to Shareholders	13,966	21,039
No. of Shares - End of Period (“EOP”)	9,229,400	9,229,400
Total Assets	302,943	251,221
Total Equity	130,764	129,041
Total Borrowings	125,738	96,238
Net Debt/(Net Cash)	119,490	91,553
CAPEX	41,586	8,194
Ratios		
EBITDA Margin	21.7%	23.8%
Operating Profit Margin	16.2%	12.7%
Margin of Net Profit Attributable to Shareholders	8.4%	14.2%
CAPEX as % of Revenues	25.1%	5.5%
Operations		
Total Production Output (in tonnes net of scrap)	73,412	70,182
Number of Employees – EOP	424	384
Exchange Rates		
CZK/EUR average	24.586	25.290
CZK/EUR EOP	25.800	25.060

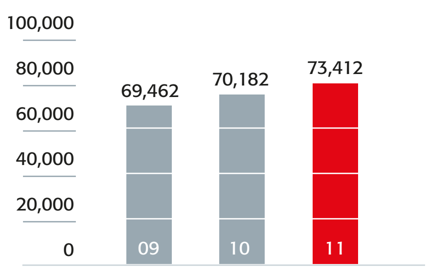
Total Revenues
2009–2011
(EUR thousand)



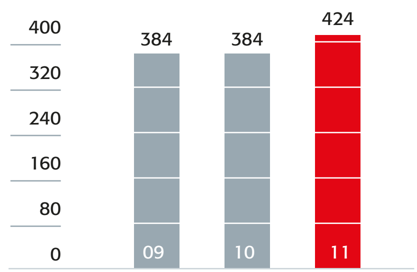
EBITDA
2009–2011
(EUR thousand)



Total Production Output
2009–2011
(in tonnes net of scrap)



Number of Employees
2009–2011



3 Company History

1992

First production line is built
The first production line located in Bučovice was put into operation in 1992. This modest production plant under the Neotex brand was the start of twenty years of rapid development.

1998

The Bučovice plant is fully developed
The third and final Bučovice production line was completed in 1998 marking the plant's final stage of development.

FOUNDED IN 1990, THE COMPANY HAS GROWN OVER THE PAST 20 YEARS TO BECOME THE LEADING EUROPEAN PRODUCER OF SPUNMELT NONWOVENS. CURRENTLY PEGAS RUNS TWO PLANTS WITH A TOTAL OF 9 PRODUCTION LINES IN THE CZECH REPUBLIC AND AN ADDITIONAL PRODUCTION LINE IN EGYPT IS UNDER CONSTRUCTION.

2011

Znojmo-Přímětice production plant

Due to the lack of space for further expansion at the Bučovice plant, in 1996 the company commenced the construction of the new Znojmo-Přímětice production facility. The latest sixth production line located at this plant was put into operation in 2011.

2012

Construction of the Egyptian plant

In 2011 the Company made the decision to proceed with international expansion. The first step in the implementation of this strategy is the project for the construction of a production plant in Egypt. Construction works commenced in January 2012 and completion of the plant is expected in the second half of 2013.

František Řezáč
CEO and the member of the Board of Directors
of PEGAS NONWOVENS SA

4 Statement from the Chief Executive Officer

Dear shareholders, Dear business partners,
Dear employees,

It is with great pleasure that I take this opportunity to share my view of the most important events of 2011 that enabled the achievement of our goals and had an effect on the development and direction of the PEGAS NONWOVENS Group.

At the end of last year we successfully put into full operation a new production line at our Znojmo plant representing the most advanced technology that the Company has at its disposal. This will strengthen our position as the technological leader in the nonwoven textile production sector. Our experienced team of professionals did an outstanding job; the production line was put into operation without any major complications and is now producing first grade material. Apart from increasing our production capacity of ultralight materials, this technology makes it possible for us to offer our customers new bicomponent nonwoven textiles and other special materials, which are planned to go into commercial production this year and in the years ahead.

Last year, the moment of greatest significance for the development of the Group was taking the decision to proceed with international expansion. The first step in the implementation of this strategy is the execution of the Egyptian production plant project. This project arose on the basis of successful discussions with one of our current major customers who expressed interest in having our products supplied to their newly built production plants located in this region. This investment marks a historical watershed moment that will expand the Company's sphere of activity into the fast growing developing markets. Last year we took several important steps with respect to this project. We concluded a long-term contract with a major customer for the delivery of nonwoven textiles from the Egyptian plant, thereby locking in demand for a significant portion of the new plant's production capacity. We gained financing for the project, purchased suitable land, selected a general contractor for the construction and technological parts, and had the entire investment insured against political risks. In January of this year we received a building permit and commenced construction. It is with great satisfaction that I can confirm that currently everything is proceeding on time and on budget. We still have a lot of work ahead of us before this project is completed, however, I am convinced that our experience and know-how will ensure that everything goes according to plan. We expect the first production line to be put into operation in the second half of 2013. If the market conditions in the region are positive, then we plan on expanding the plant by a second production line in the years 2015/2016.

This expansion of production capacities must go hand in hand with securing sales volumes for our products. In this respect, the key prerequisite for success is customer

LAST YEAR, THE MOMENT OF GREATEST SIGNIFICANCE FOR THE DEVELOPMENT OF THE GROUP WAS TAKING THE DECISION TO PROCEED WITH INTERNATIONAL EXPANSION.

satisfaction with our products and therefore we are very pleased to have once again received the prestigious „Business Partner of the Year“ award from Procter & Gamble in 2011. This award was given to only the 12 best suppliers from a total of 75,000 worldwide. At the same time, for the fourth year in a row, we were awarded the „Excellence Award“, which is given to suppliers providing the highest level of service over the long term. These awards are the highest acknowledgement for our efforts and motivate us to continue on this path.

The 2011 financial results met our expectations. We were successful in achieving the full year EBITDA guidance, despite slowing demand in the European nonwoven textile market during the last quarter of the year and the expenses connected to the new production plant project in Egypt. EBITDA reached EUR 36.1 million, growing by 2.4% yoy, mainly as a result of the launched new production line. This effect will also be felt in 2012 when we expect EBITDA to grow by 5-15% yoy.

In 2011 we were witness to a very high volatility of input material prices. In the first half of the year polymer prices rose to historically high levels only to steeply decline in the second half. These fluctuations had a significant effect on our quarterly financial results and from a full year's perspective they had a slightly positive impact. Since the beginning of 2012 prices have once again exhibited dramatic growth approaching historical highs. It is very likely that this development will again accentuate the differences between the financial results recorded in the individual quarters.

2011 was an eventful year and it will be followed by 2012 which will be a year of consolidation for the Company. Our objective is to stabilise our current production base, optimise the operation of the newest production line and build a solid foundation for 2013, when we plan to put our Egyptian line into operation.

To be successful in the market requires that we work diligently, assume an optimal level of risk and understand the needs and wishes of our customers. In concluding, I would like to thank all those who demonstrated their interest in the future of the PEGAS Group through their long-term efforts and responsible approach to the Company's continuing positive development.

František Řezáč
CEO and the member of the Board of PEGAS NONWOVENS SA

5 Management Report

DESCRIPTION OF THE COMPANY'S BUSINESS AND MARKET

Overview of the Nonwovens Market

PEGAS's key market is geographically defined as Europe (Western, Central and Eastern Europe, Russia and Turkey). This market has grown by 5.7% CAGR since 2000 and at the end of 2010, production levels were at 1.79 million tonnes (or 54.25 bil. m^2) of nonwoven textiles.

The European personal hygiene market, with a 32% share of the total annual European nonwoven production or 0.57 million tonnes (or 29.28 bil. m^2), denotes the core area of business activity for PEGAS. This sector is defined by three major product application groups: disposable baby diapers, adult incontinence products and feminine hygiene products. Hygiene products have become a modern necessity, the demand for which is non-cyclical and compared to other market sectors is relatively unaffected by economic developments. This demand inelasticity was confirmed in 2008 and 2009, during the economic downturn, when growth in volumes continued regardless of external factors.

Geographically, the Company's core market continues to be the broader European area, consisting of traditional Western European countries, Central and Eastern Europe (CEE), including Russia. Lower saturation (lower per capita usage) of hygiene products in Russia and the developing CEE countries compared with Western Europe explains the accelerated growth in demand for nonwoven consumables in these markets. On the other hand Western Europe's ageing population, with increasing life expectancy and high income levels will support growth in the adult incontinence market. Modern light-weight and comfortable nonwoven textiles are leading to a greater acceptance of incontinence products by customers.

Competition

PEGAS's competition can be defined as European producers of spunmelt PP and PP/PE nonwoven textiles, namely those active in the hygiene sector. According to estimates from EDANA and John R. Starr, in 2010 PEGAS was the second largest producer. PEGAS's main competitors are international and regional companies with production facilities located in Western Europe with several new entrants in Russia. Compared to other continents the European spunmelt PP- and PP/PE-based nonwoven textile market is much more fragmented, numbering more than 30 producers in total.

THE EUROPEAN PERSONAL HYGIENE MARKET, WITH A 32% SHARE OF THE TOTAL ANNUAL EUROPEAN NONWOVEN PRODUCTION OR 0.57 MILLION TONNES (OR 29.28 BIL. M^2), DENOTES THE CORE AREA OF BUSINESS ACTIVITY FOR PEGAS.

Overview of the Company's Products

Hygiene

The core of the Company's product mix are the following nonwoven textiles – Pegatex® S, Pegatex® SMS and Pegatex® BICO, which are tailored to meet the specific needs of each and every customer and are subsequently used for the production of:

- Disposable baby diapers
- Adult incontinence products
- Feminine hygiene products

In order to meet the highest requirements of customers in hygiene applications, PEGAS produces a wide range of light and ultra-light technologically advanced nonwoven textiles with excellent technical properties, which are soft, pleasant to touch and therefore provide improved comfort to the final customer.

Medical and Protective Clothing

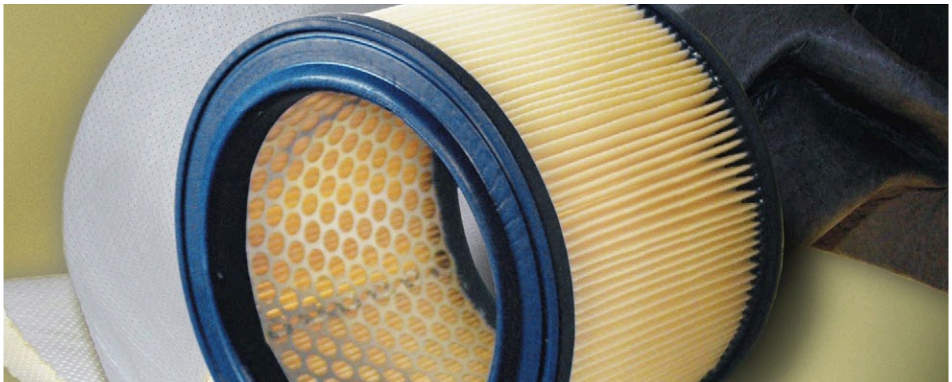
Pegatex® S, Pegatex® SM, Pegatex® SMS nonwoven fabrics are semi-finished textile products for the production of single-use protective clothing, meeting and exceeding the technical requirements for high standards of protection in dangerous workplaces for which they have been specifically designed and developed. Their characteristic high barrier qualities provide protection from aggressive liquids and prevent leakage of dust particles and micro-organisms. Due to these qualities they are used as semi-finished textile products for the following applications:

Medical protective clothing:
- Surgical masks
- Surgical gowns and drapes
- Head covers
- Shoe covers

Industrial protective clothing:
- Protective overalls and masks
- Chemical suits

Agriculture

For agriculture, PEGAS offers a nonwoven textile under the brand name PEGAS-AGRO®, which is used mainly in vegetable cultivation and gardening and is suitable for large-scale production and mechanisation. This material is used as a covering textile (crop cover) sheltering plants from the weather and other negative effects (air, light frost, hail, pests) and it is also used as a mulching fabric for preventing the growth and spreading of weeds.



Furniture and Construction Industries

In the construction industry Pegatex® S nonwoven fabric is used primarily as a component of a composite material (modified by lamination) for the production of under-roofing covers, heat and sound insulation and wind barriers.

In the furniture-making industry Pegatex® S and Pegatex® SMS nonwoven fabric is used as a neatening fabric (either on the back or bottom parts of upholstered furniture), and for seam reinforcement in the production of mattresses or as disposable hygienic bed covers.

Filtration, Wipes and Absorbents

Pegatex® SMS is the nonwoven fabric used for the separation and filtration of water or air. This textile with very fine (micro-denier) fibres and excellent surface evenness is often combined through lamination with other materials. Excellent filtration and absorption qualities make the textile ideal for applications such as industrial wipes and absorbents of oil, acid and alkaline based liquids.

Product name	Application area	Key applications
Pegatex® S	Hygiene products, medical and protective clothing, agriculture, furniture and construction industry, wipes	Baby diapers, feminine hygiene products, adult incontinence products, gowns, head and shoe covers, crop cover, mulching textile, mattresses, neatening fabrics, interlinings, wind barriers, roofing membranes, household and industrial wipes
Pegatex® SMS	Hygiene products, medical and protective clothing, construction industry, filtration products	Baby diapers, adult incontinence products, surgical drapes, gowns, face masks, industrial protective apparel, wind barriers, air filtration products
Pegatex® S BICO	Hygiene products, various industries	Baby diapers, feminine hygiene products, adult incontinence products, composite fabrics, laminates
Pegatex® SMS BICO	Hygiene products	Baby diapers, feminine hygiene products, adult incontinence products
PEGAS-AGRO® Crop cover	Agriculture	Plant protection
PEGAS-AGRO® Mulching fabric	Agriculture	Soil cover
Pegatex® MB (Meltblown)	Wipes, absorbents	Industrial wipes, absorbents of oils and chemicals

ON 1 JUNE, 2011 THE COMPANY ANNOUNCED ITS PLAN TO BUILD A NEW PRODUCTION PLANT IN EGYPT.

TECHNOLOGY AND PRODUCTION

The Group owns and operates technologically advanced equipment necessary for the production of high-quality spunmelt nonwoven textiles. Production management is focused on continuous maintenance and modernisation of the equipment and machinery, ensuring that the Company continues to rank among the leading European producers of nonwoven textiles.

All nine production lines were manufactured by Reicofil, a leading German global supplier of spunmelt nonwoven production equipment that currently dominates the market for PP- and PP/PE-based spunmelt nonwoven machines worldwide.

Three production lines are located at the Bučovice plant near Brno and six production lines are located in Přímětice near Znojmo. The output of the first line, installed in 1992, is primarily sold for technical and agricultural applications. The meltblown line production, installed in 1996, is used for technical applications requiring a high absorption capacity, such as industrial wipes and absorbents, and the remaining production lines are dedicated to the hygiene market.

In 1998 PEGAS was the first spunmelt manufacturer to install Reicofil technology with a microfilament option. In 2000, PEGAS installed a Reicofil 3 production line capable of producing bi-component materials, the first such production line in Europe. The Reicofil 4 line, which was installed at the end of 2004, employs a new technology leading to high-speed production with improved nonwoven textile formation and uniformity. The Reicofil 4 line has a width of 4.2 metres, all the other Reicofil lines have widths of 3.2 metres except for the meltblown line which has a width of 1.6 metres.

PEGAS's "SSMMMS[1] 3200 Reicofil 4 Special" production line was installed in autumn 2007. It is state-of-the-art technology and the very first of its kind in the world, able to produce ultra light-weight nonwoven textiles for the hygiene sector as well as for other applications.

In the second half of 2011, the Company launched its 9th production line. The Reicofil 4 type production line produces mainly hygiene materials with the option of production for other applications. The new production line has enabled the expansion of the Company's annual production capacity by up to 20 thousand tonnes (depending on the product portfolio) and has a width of 4.2 metres.

On 1 June, 2011 the Company announced its plan to build a new production plant in Egypt. In the medium-term horizon PEGAS NONWOVENS plans to build two production lines in Egypt. The first line should have a capacity of approximately 20 thousand tonnes (depending on the product portfolio) and it is expected to be put into operation during the course of the second half of 2013. If the market conditions in the region are favourable, the Company expects to expand the plant by a second production line in the years 2015–2016, which would increase the total capacity of the Egyptian plant to 45–50 thousand tonnes.

In addition to the production lines, PEGAS operates three small finishing lines, which enable the cutting, gluing and perforation of processed fabrics according to customer specifications.

The Company puts an emphasis on recycling scrap materials, which are an unavoidable by-product of the spunmelt production process, for subsequent reuse. To further optimize recycling, PEGAS has developed a proprietary technological process that enables waste to be reduced to a minimum. This recycling line was installed in 2006.

[1] „S" indicates a spunbond layer, „M" indicates a meltblown layer

PLANTS AND PREMISES

PEGAS operates two production facilities located approximately 100 kilometres from each other in the south east of the Czech Republic. The original site in Bučovice has three production lines installed and further space for expansion is now limited. The newer site in Přímětice was developed on the outskirts of Znojmo and has six production lines. In addition to these production sites, the Company owns an administrative building in Znojmo, close to the Přímětice production plant. All premises have been constructed as greenfield projects. The production sites cover a total of approximately 146,000 square metres, of which 86,700 square metres are occupied by buildings and other structures (including the administrative building in Znojmo). PEGAS owns all of its real estate and the buildings on it.

In connection with its investment in Egypt, PEGAS purchased land to be used for the construction of the plant in the industrial zone at the City of 6th October near Cairo. The area of the parcel is 42,000 square metres.

Machine	Year of Installation	Technology Configuration	Plant Location	Line Width in Metres	Annual Production Capacity in Tonnes
Reicofil 2	1992	S	Bučovice	3.2	2,700
Reicofil 2	1996	SMS	Bučovice	3.2	4,600
Reicofil Meltblown	1996	M	Přímětice	1.6	700
Reicofil 3	1998	SMS	Bučovice	3.2	7,000
Reicofil 3 BiCo	2000	SSMMS	Přímětice	3.2	11,500
Reicofil 3 BiCo	2001	SSS	Přímětice	3.2	10,000
Reicofil 4	2004	SSS	Přímětice	4.2	20,000
Reicofil 4 Special	2007	SSMMMS	Přímětice	3.2	15,000
Reicofil 4S Advanced BiCo	2011	SSMMS	Přímětice	4.2	18,500
Total Production Capacity					90,000

CUSTOMERS

PEGAS' position as one of the market leaders in the European hygiene nonwovens market has enabled it to develop close and longstanding relationships with those customers that are leading corporations in their end markets. PEGAS intends to strengthen its existing customer relationships further by taking advantage of its in-depth understanding of customer needs, using technological expertise and through the introduction of new and improved products and technologies. PEGAS works in close cooperation with its customers as well as suppliers in order to introduce new and improved products and product properties that address specific customer needs for softer, lighter and cost reducing materials.

The top five customers represented a 78% share of total revenues in 2011 (79% in 2010). The present customer mix concentration of the Company reflects the situation in the hygiene market, which is divided among a small number of end producers, each having a substantial market share. In September 2011, PEGAS entered into a three year contract with one of its major customers for the period 2011–2013 in the total volume of more than 100,000 tonnes of nonwovens textiles which in financial terms is more than EUR 200 million.

In 2011 PEGAS was awarded the prestigious "Business Partner of the Year" award by Procter & Gamble. This award was received by the 12 top suppliers from a total of 75,000 suppliers worldwide and continues on from the „Supplier of the Year" award, which the Company received last year. At the same time, the Company was awarded for the fourth year in a row the „Excellence Award", which is given to suppliers providing the highest level of service over the long term.

SUPPLIERS

The main raw materials used for spunmelt nonwovens are polymers, most importantly polypropylene followed by polyethylene. In 2011 the consumption of PP and PE accounted for 76.6% of the Company's total operating costs (excluding depreciation and amortization). Over the past three years, the Company has sourced polymer raw materials from a total of six suppliers. The polymer raw materials are purchased under both one-year and multi-year agreements. The competitiveness of the suppliers is maintained by on-going benchmarking.

QUALITY MANAGEMENT AND THE ENVIRONMENT

PEGAS is ISO 9001 and ISO 14001 certified. It first received these quality certifications in 1997. In connection with the amendment of the ISO standards of the 9001 series in 2000, the existing system was partially revised and subsequently, the Quality Management System and Environmental Management System were integrated in 2002. PEGAS has a certified integrated system of quality according to ISO 9001 by CQS, IQNet and environmental management ISO 14001 by CQS, IQNet. Through its performance, PEGAS intends to keep improving and developing this integrated system with the ultimate goal of always achieving the highest possible standards. All certificates were renewed in December 2011.

Quality Management System

Primary targets include customer satisfaction and the achievement of the highest product quality.

The high QMS and EMS standards and the quality of the products are based on three fundamental principles:

- Advanced technology
- Quality management tools
- Results

In addition to the general quality requirements imposed by ISO 9001, the Company is constantly looking to improve and adjust its production processes and relevant assets in order to provide superior output quality.

In order to enhance the current QMS – ISO 9001, the management of the Company decided to implement an in-house quality management system – PQS (PEGAS Quality System) based on knowledge and experience with quality management tools in the whole production chain. The goal of the project is not simply the training employees but also changing the Company culture and the perception of quality as a key factor of the Company's prosperity and a guarantee of constantly high quality of products.

All production premises are equipped with overpressure air control to eliminate the risk of insects or particles contaminating textiles

IN 2011 PEGAS WAS AWARDED THE PRESTIGIOUS "BUSINESS PARTNER OF THE YEAR" AWARD BY PROCTER & GAMBLE.

during production. A digital camera quality control system has been installed on all hygiene production lines to monitor bonding consistency, uniformity and presence of external particles. These measures have significantly decreased customers' complaints.

Customer satisfaction with the Company's products and services remains one of the key priorities for PEGAS and the Company is fully committed to on-going cooperation with its customers. This dedication is regularly rewarded by customers.

Environmental Management System

Environmental protection and the creation of safe and healthy work conditions for employees of the Company and their constant improvement, including pollution prevention and continuous efforts to reduce the negative impact of the Company's activities on the environment belong to the highest priorities of the Company.

PEGAS has implemented and maintained an environmental management system to take care of all environmental aspects as required by ISO 14001. The production process involves the transformation of PP or PE raw materials into the form of fibres through the application of heat and pressure. This process results in minimal chemical changes to the material and produces only limited atmospheric emissions.

The management of the Group has adopted key principles to meet all environmental requirements. All employees are aware of and recognise their responsibility for the fulfilment and observance of the principles of the environmental policy of the PEGAS Group.

Details related to environmental activities are available on PEGAS's website www.pegas.cz or www.pegas.lu, in the section Company/Certification/Annual Environmental Policy Statement.

RESEARCH

Research and Technical Support

The development of new applications and products is one of the most important parts of PEGAS' current and future strategic focus. This platform is supported by a team of technicians, who are dedicated to product development, customer and technology support. This team has been built over a period of more than 10 years.

Work teams are active in several different areas, which are principally divided into industrial and hygiene applications, with the main focus on the hygiene field as the key driver for the most important projects at the Company.

From the technological point of view, the technical department has two main goals:

a) to improve quality, performance and production efficiency of standard products and

b) to develop products with added value using both current and/or new technologies.

Both objectives are achieved in cooperation with raw material suppliers, using standard and special new polymers, and/or with machinery suppliers, allowing the Company to provide a competitive edge to its customers.

In the technology field, PEGAS is continuing in the commercialisation of ultra light-weight materials produced on the latest production line. This line confirmed the anticipated parameters of the final product and the overall efficiency of the machinery. In addition, this new line will enable the Company to bring certain technologically advanced designs to the market, allowing PEGAS again to strengthen its position among technology leaders.

Apart from certain ultra light-weight materials, in terms of new products, PEGAS has successfully developed and started commercialising a new nonwoven material used in medical applications and, thanks to the special treatment of the material, managed to achieve excellent protective properties.

Additionally, PEGAS is actively contributing to the development of soft nonwovens with excellent touch, bulkiness and drapeability properties, nonwovens with increased extensibility and improved barrier characteristics, which after further development and successful commercialization should bring a number of benefits to clients.

PEGAS cooperates with many institutions, which provide positive support for the

Company's research, especially in the areas of modelling the structure of the nowoven fabric with the objective of achieving a bulky and soft touch and feel, highly efficient barrier function and/or special polymers. There are several universities and R&D centres, mainly in the Czech Republic and Slovakia, and also in Western Europe, offering the Company special support in various specialised fields and/or highly sophisticated lab resources.

In order to better utilise its production lines and accelerate the development of its projects, PEGAS uses several pilot lines, which are made available under certain agreements at suppliers' sites. All projects are related either to new technologies themselves or to the utilisation of newly developed raw materials in technologies or projects, which are designed directly for specific customers. There are several projects where all three parties cooperate, and thereby involve the whole supplier chain.

Research costs in 2011 were EUR 2.3 million.

Intellectual Property

PEGAS has registered its trademark and logos in selected European and international markets. The Company has one registered patent for a special nonwoven microfilament spunmelt material for hygiene products. PEGAS is also an owner of a patent for the treatment of nonwovens using atmospheric plasma. The patents are registered internationally for selected European countries.

The Company has registered a patent for specially treated medical nonwovens textile in the Czech Republic and international registrations are pending.

PEGAS recently applied for registration of a patent for a soft bulky nonwoven textile.

Litigation

At present, no litigation or arbitration proceedings that are likely to have a significant effect on PEGAS' financial position or results of operations are pending or threatening the Group.

STRATEGY

The Company's strategy for 2012 and into the future is to:

1) develop and take advantage of growth opportunities to strengthen its market position,
2) maintain and extend technological leadership in spunmelt nonwoven textiles for disposable hygiene products in Europe, and
3) provide solid returns to shareholders.

PEGAS intends to achieve its objectives principally through the following strategies:

Continue Investing into Technologically Advanced Production Capacity: PEGAS will strive to install state-of-the-art production capacities ahead of its European competitors. Its latest 9th production line in Znojmo was put into operation in the second half of 2011 and a new production line in Egypt is under construction.

Maintain Close Relationships with Customers and Suppliers: PEGAS will continue to work together with its clients, machinery manufacturers and raw material suppliers to research, develop and implement new products ahead of the competition. PEGAS will endeavour to remain at the forefront of technical developments in the industry, supply its customers with the highest quality products and continually develop new materials.

Focus on Technologically Advanced Products: PEGAS is Europe's largest producer of bi-component spunmelt nonwovens with extensive experience in the design and production of ultra lightweight materials.

Maintain industry leading financial performance: PEGAS' principal objectives are to continue to grow with its core target market, deliver revenues in line with this growth and maintain high operating margins relative to its core competitors. PEGAS is effective at generating significant levels of cash, which is subsequently used to support expansion, reduce outstanding debt and enable dividend payments.

Monitoring investment opportunities: The Company will continue to monitor investment opportunities outside the Czech Republic, whether these be acquisitions or the construction of new capacity abroad.

HUMAN RESOURCES

PEGAS benefits from a skilled and motivated workforce, which results in a relatively high profitability per employee and productivity growth. By focusing on retaining highly skilled employees, the Company is able to maintain a low staff turnover rate of approximately 5.6% annually in 2011. The table below indicates the number and functional breakdown of employees.

PEGAS provides continuous training, some of which is compulsory, in areas such as workplace safety, computer skills and foreign languages.

The monthly wage of the Company's employees (including management) is still significantly below the average in Western Europe, but significantly higher than the average in the South Moravian region of the Czech Republic. The remuneration structure is highly motivational, with the fixed component of the basic salary ranging from approximately 80% for manual workers and down to approximately 60% for management. The salary of workers varies in relation to the volume produced on a specific line, including the quality of the product, and it is capped.

Number of employees	As at 31 December		
	2009	2010	2011
Non-executive Directors	3	2	2
Executive Directors	2	3	3
Management	15	16	15
Specialists	53	51	54
Laboratory Staff	37	37	43
Foremen	62	61	68
Qualified Workers	212	214	239
Total	384	384	424
Average no. of employees	380	380	414

Children's Centre

Volleyball Club Znojmo – Přímětice

CORPORATE SOCIAL RESPONSIBILITY

PEGAS is more than just a major manufacturer and employer in the Znojmo and Vyškov regions. The Company is also a good neighbour and in this respect it is committed to social responsibility in the local community and a healthy environment.

In 2011 the Company continued in the support of a number of cultural, social and sports events in the region.

Children's Centre

In 2009 PEGAS began its cooperation with the Children's Centre in Znojmo, which provides paediatric, neurological, rehabilitation, psychological, educational and social care services to threatened or handicapped children and their families. Complex care is provided in the form of ward, stationary and outpatient care to threatened or handicapped children up to the age of 15.

Znojmo Music Festival

The Znojmo Music Festival is focused on the anniversaries of famous composers from older musical periods and so it corresponds to the precious historical architecture of the City of Znojmo. At the same time this Festival should create a bridge between music and unique wines of the Znojmo region. Its goal is to become a renowned national and over time a European cultural event promoting the City of Znojmo as a cultural centre and lead to a growth of tourism. Another goal of the Festival is to prepare unique artistic projects that will become an integral part of events in the cultural world. Pavel Šporcl, a famous Czech violinist, has been a patron of the Festival for several years now. The Festival is held over a period of seventeen days.

Volleyball Club Znojmo – Přímětice

Volleyball Club Znojmo – Přímětice was founded in February 2005 after the co-operation agreement between teams of TJ Sokol Přímětice and PSK Znojmo. This led to the formation of a strong team representing the City of Znojmo and the whole region, which managed to rank at the top of Czech volleyball over the seven years of its existence. There are teams in championship competitions from preparation, to students, cadets, juniors and up to a women's team. Since 2010 PEGAS has been the general partner of the Volleyball Club.

Znojmo Music Festival

Dragon Boats

COMMENTS ON FINANCIAL RESULTS

Revenues, Costs and EBITDA

In 2011 consolidated revenues (revenues from sales of the Company's products) reached EUR 165.8 million, up by 11.9% yoy. A key role in the development of revenues was played by the continued growth in polymer price indices (particularly in the first half of the year), which in 2011 rose by 10% compared with the 2010 average. The new production line that was put into operation in the third quarter of last year also contributed to the increase in revenues.

In 2011 total consolidated operating costs without depreciation and amortization (net) increased by 14.9% yoy to EUR 129.8 million. The main reason for the increase in operating costs was the growth in polymer price indices described above.

In 2011 EBITDA amounted to EUR 36.1 million, up by 2.4% yoy. This result is in line with the guidance range announced at the beginning of the year, when the Company indicated a year on year EBITDA increase of 2% to 7%. The year on year EBITDA increase was achieved namely due to the launch of the new production line. The decline in polymer prices recorded in the second half of the year compensated for their growth in the first half and on an annualised basis the effect of the price pass-through mechanism was positive. The achieved EBITDA is at the lower end of the guidance range as it was impacted by a slowdown in demand in the European nonwoven textile market in the last quarter of the year and the costs connected to the new production plant project in Egypt. In 2011 these costs amounted to EUR 0.3 million.

In 2011, the EBITDA margin was 21.7%, which is 2.1 percentage points lower compared with 2010.

Operating Costs

Total raw materials and consumables used in 2011 amounted to EUR 122.0 million, a 15.4% yoy increase. The main factor affecting the increase in consumables was the growth in polymer prices and an increased consumption of input materials in connection with the new production line.

Total staff costs reached EUR 8.3 million in 2011, up by 4.2% yoy. The annual increase in staff costs was primarily the result of the recruitment of employees for the new production line. Total staff costs for the same period expressed in CZK and without the revaluation of the share option plan grew by 5.5% yoy.

Other operating income (net) amounted to EUR 0.6 million in 2011, down by 24.9% yoy.

Amortization and Depreciation

Consolidated depreciation and amortization reached EUR 9.2 million in 2011, down by 43.7% yoy. In 2011 the Company performed an analysis of the useful lifetime of property, plant and equipment. Based on this assessment the Company decided to prolong the residual estimated useful lifetime of production technology. This change was effective as of 1 January, 2011. Therefore, the amortization and depreciation amount cannot be compared year on year.

Profit from Operations

In 2011 profit from operations (EBIT) amounted to EUR 26.9 million, up by 42.3% compared with 2010. On a year on year basis the profit from operations was significantly affected by lower depreciation and amortization.

Financial Income and Costs

In 2011 foreign exchange changes and other financial income/(expense) (net) represented a loss of EUR 4.3 million, compared with a gain of EUR 6.3 million achieved in 2010. This item includes realized and unrealized FX gains/losses and other financial income and expenses. The year on year change resulted from the development of the CZK/EUR FX rate and from the subsequent unrealized FX changes related to the revaluation of the balance sheet items denominated in EUR.

Interest expenses (net) related to debt servicing amounted to EUR 4.3 million in 2011, a 29.6% increase compared with 2010. The increase in interest expenses is connected to the refinancing of external debt and the subsequent write down of the remaining part of the arrangement fee for the previous bank loan. The year on year increase was also caused by the increase in the interest margin of the new loan facility and the increased draw down of the loan.

Income Tax

In 2011 income tax expense amounted to EUR 4.3 million, up by 402.6% over 2010. The Company recorded income tax because of changes in deferred tax resulting from the inclusion of the new production line into the depreciable assets and also due to the expiry of investment incentives for the subsidiary PEGAS - DS a.s., which ceased to exist following its merger with PEGAS NONWOVENS s.r.o. on 1 October 2011. Current tax payable amounted to EUR 2.1 million, while changes in deferred tax were EUR 2.2 million.

Net Profit

In 2011 net profit amounted to EUR 14.0 million, down by 33.6% yoy, primarily due to FX changes in the compared periods and higher income tax.

CAPEX and Investments

In 2011 total consolidated capital expenditure amounted to EUR 41.6 million representing a 407.5% yoy increase. Maintenance capital expenditure amounted to EUR 3.4 million and expenses for the construction of new production capacities amounted to EUR 38.2 million. The higher capital expenditures in this year were connected to the project for the construction of the new production facility in the Czech Republic and the construction of the plant in Egypt. The Company met its revised investment expenditure estimate, which totalled EUR 42 million.

Cash and Indebtedness

The total amount of consolidated financial debt (both short- and long-term) as at 31 December, 2011 was EUR 125.7 million, a 30.7% increase compared with 31 December, 2010. Net debt as at 31 December, 2011 was EUR 119.5 million, up by 30.5% yoy. This is equivalent to a Net Debt/EBITDA ratio of 3.3x.

Business Overview in 2011

In 2011, total production output (net of scrap) reached 73,412 tonnes, up by 4.6% compared with 2010. Operational performance in 2011 was affected by the launch of the new production line in Přímětice.

In 2011, the share of revenues from sales of nonwoven textiles for the hygiene industry represented an 87.5% share of total revenues, remaining more or less unchanged compared with an 87.7% share in 2010. The high share of products in this category confirms the important position the Company has in this market.

Revenues from sales of standard (commodity) textiles for hygiene products reached EUR 112.8 million in 2011, an increase of 13.4% yoy. In 2011 the share of revenues from sales of standard textiles for the hygiene industry represented a 68.0% share of total revenues, an increase from the 67.1% share in 2010.

In 2011, the revenues from sales of light-weight and bi-component materials for the hygiene sector reached EUR 32.4 million, a 6.1% yoy increase. The proportion of this product category to the total sales in 2011 amounted to 19.5%, a slight decline compared with a 20.6% share in 2010. Revenues from sales of non-hygiene products (for construction, agriculture and medical applications) amounted to EUR 20.7 million in 2011, an increase of 13.9% yoy.

In terms of geographical distribution, the Company confirmed its steady sales focus on the broader European area. In 2011 revenues from sales to Western Europe amounted to EUR 87.5 million, which represented a 52.7% share of total revenues, compared with a 58.0% share in 2010. In this period revenues from sales to Central and Eastern Europe and Russia amounted to EUR 72.1 million and represented a 43.5% share of total revenues. In 2010 this share was 38.3%. Revenues from sales to other territories amounted to EUR 6.2 million and represented a 3.8% share of total revenues, compared with a 3.7% share in the previous year.

2012 Guidance

In 2012 the ramp up of the new production line that was put into operation in the second half of last year will demonstrate its full effect. PEGAS expects an annual increase in production of approximately 20%.

Due to the slowdown in market demand at the end of 2011, the Company increased its inventory of finished goods. During the course of the first quarter of this year this market situation has persisted and inventories will continue to increase. Based on present knowledge and indications from customers, the Company believes that it will be able to reduce its inventories in the second half of the year.

PEGAS will continue to rely on its production efficiency, which partially reduces and compensates for the impact of pricing pressures from customers.

The expenses connected with the construction of the production line in Egypt will reduce the operating profitability of the Company in 2012 by approximately EUR 1 million.

Based on the above factors and information known to date, the Company expects 2012 EBITDA to grow in the range from 5% to 15% compared with the level achieved in 2011 (EUR 36.1 million).

In the short term, operating results may be affected by developments in polymer prices. The Company expects continuing volatility in the polymer price level, which will affect profitability in the individual quarters of 2012. In contrast to the end of 2011, price indices are currently experiencing significant growth.

The Company estimates that in 2012 the total capital expenditure will not exceed EUR 46 million (at the constant exchange rate of CZK/EUR 24.50).

IN THE FIRST PHASE, THE VALUE OF THE INVESTMENT IN EGYPT IS PLANNED IN THE RANGE OF EUR 55–60 MILLION.

CZECH INVESTMENT INCENTIVES

Investment Incentives Granted to PEGAS

PEGAS has obtained investment incentives from the Czech authorities several times. Recipients of the existing investment incentives are subsidiaries PEGAS-NT a.s., PEGAS - NW a.s. and PEGAS - NS a.s. as special purpose companies to accommodate each investment. Tax incentives granted to PEGAS - DS a.s. in 1999 expired in 2010 and this subsidiary ceased to exist following its merger with PEGAS NONWOVENS s.r.o. with effect from 1 January 2011.

PEGAS–NT a.s.

The Czech government granted PEGAS-NT a.s. the following investment incentives in its decision of July 2002:

- Full corporate income tax relief for up to a 10 year period; and
- A job creation grant in the amount of CZK 5.4 million.

The total amount of the incentives cannot exceed 45% of the investment (which as at 31 December 2011 amounted to CZK 944 million); and in any case cannot exceed CZK 509.9 million. PEGAS-NT a.s. started making use of the incentives in fiscal year 2005.

PEGAS – NW a.s.

PEGAS – NW a.s. obtained its investment incentives based on the decision of the Czech government on 10 June, 2005. The incentive consists of corporate income tax relief for up to 10 years. The tax relief may not exceed 48% of the invested amount (CZK 1,058 million as at 31 December 2011), and in any case cannot exceed CZK 573.6 million. PEGAS - NW a.s. started making use of the incentives in fiscal year 2008.

PEGAS – NS a.s.

PEGAS – NS a.s. received a commitment of investment incentives from the Ministry of Industry and Trade of the Czech Republic based on the decision dated 12 January, 2009.

PEGAS – NS a.s. obtained an approval of the following investment incentives:

- corporate income tax relief for a period of 10 years; and
- financial support for job creation in the Znojmo Region in the amount of CZK 200 thousand for every new work position created.

The total amount of incentives may not exceed 30% of the total invested amount (CZK 845 million as at 31 December 2011). At the same time the total amount of the public grant may not be higher than CZK 403.5 million.

INVESTMENT IN EGYPT

On 1 June, 2011 the Company announced its plan to build a new production plant in Egypt. In connection with this plan, PEGAS established a new subsidiary PEGAS NONWOVENS EGYPT LLC. The investment and the establishment of the company is the result of successful negotiations with a major customer, who showed interest in deliveries of nonwoven textiles to its production plants in the Middle East and it is also based on the growth potential of this market. Negotiations with the customer were successfully completed in the autumn of 2011 and a contract for long term deliveries was signed.

In the first phase, the value of the investment in Egypt is planned in the range of EUR 55–60 million.

PEGAS signed a contract for the purchase of land to be used for the construction of the plant with the Industrial Development Group, a developer for the industrial zone at the City of 6th October near Cairo. The area of the parcel is 42 thousand square metres.

In the medium-term horizon PEGAS NONWOVENS plans to build two production lines in Egypt. The first line should have a capacity of approximately 20 thousand tonnes (depending on the product portfolio) and it is expected to be put into operation during the course of the second half of 2013. If the market conditions in the region are favourable, the Company expects to expand the plant by a second production line in the years 2015–2016, which would increase the total capacity of the Egyptian plant to 45–50 thousand tonnes. Approximately 80 new employees are expected to be hired for the new production line.

In the autumn of 2011, PEGAS signed a contract with the production technology supplier Reifenhaeuser REICOFIL

GmbH & Co. and with PSG International a.s. as the general contractor for the building works.

The PEGAS NONWOVENS Egyptian project is headed by Mr. Philippe Ehret, who has extensive experience in the area of nonwoven textile production and project management. Recently Mr. Ehret managed a successful project for the construction of a nonwoven textile production plant in Saudi Arabia.

In June 2011 the Company refinanced its bank loan thereby securing finances for international expansion and in autumn, it entered into an insurance contract with EGAP for the coverage of risks related to the Egyptian investment.

OTHER INFORMATION REQUIRED BY LEGISLATION

PEGAS Shareholding Information

Information on shares and shareholders is described in chapter 6 – Investor Information.

Declaration on Management and Corporate Governance

Declaration on Management and Corporate Governance is detailed in chapter 7 – Corporate Governance and chapter 11 – Other Information

Principal Risks and Uncertainties Faced by the Company

Description of principal risks and uncertainties faced by the Company can be found in the chapter 7 – Corporate Governance (Risk Factors).

The Objectives and Policies of the Company's Financial Risk Management and Exposure of the Risks

The objectives and policies of the Company's financial risk management and exposure of the given risks are detailed in the notes to the consolidated financial statements on pages 62–68.

The Existence of Branches of PEGAS and the PEGAS Group Entities

Subsidiaries included in the consolidated entity are described in the notes to the consolidated financial statements on page 83.

Information in Respect of the Acquisitions of Own Shares

The Company did not acquire any of its shares during the year 2011.

Internal Control and Risk Management Organization

The Management of the Company is responsible for the establishment and maintenance of internal control system in the Company and its efficiency in the process of preparing financial statements. The internal control system covers all the activities of the Company. The Company has established a continuous process for identifying and managing various potential risks faced by the Company, and confirms that all appropriate actions have been taken, or are being taken, to address any issue. Financial statements, both for internal and external reporting purposes, are prepared by highly skilled professionals and reviewed by other independent personnel. The annual financial statements are subject to independent examination by an external auditor.

MATERIAL SUBSEQUENT EVENTS

On 29 March, 2012 the tenure of non-executive member of the Board of Directors, Mr. Neil J. Everitt, expired and he no longer sought to renew his mandate.

The management of the Group is not aware of any other events that have occurred since 31 December, 2011 that would have any material impact on the Company.

6 Investor Information

PEGAS SHARES AND SHARE CAPITAL

Shareholders as of 31 December, 2011

Institutional and Retail Investors (together free float)	100%
Of which Management of the Company	0.9%

Source: Company Data

In December 2006, PEGAS completed an IPO of its shares at a price of CZK 749.20 (EUR 27). The IPO consisted of the offer of 5,042,750 shares in total, including 1,810,000 shares newly issued in the Company's share capital and 3,323,750 shares offered by the selling shareholder Pamplona Capital Partners I, LP ("Pamplona").

Shares of PEGAS NONWOVENS SA were listed on the Prague Stock Exchange and on the Warsaw Stock Exchange in December 2006. PEGAS has one series of shares. All shares have one vote and carry equal dividend rights. The shares are in registered form and are entered into the depository system of Clearstream Bank. The nominal value of one share is EUR 1.24. The aggregate nominal value of the issued share capital is EUR 11,444,456.

On 4 July, 2007 the principal shareholder of PEGAS NONWOVENS SA, Pamplona, announced its intention to sell part or its entire stake held in PEGAS. Pamplona placed its entire 43.4% stake on 10 July, 2007 via an accelerate book-build on the Prague and Warsaw Stock Exchanges at the price of CZK 780 or PLN 102.49[2]. The shares were sold primarily to European institutional/portfolio investors and the placement was not targeted to retail investors.

The shares are traded on the Prague Stock Exchange under ISIN LU0275164910 BAAPEGAS and on the Warsaw Stock Exchange under PGS. The shares of PEGAS NONWOVENS SA are as of 19 March, 2007 part of the PX index, which covers the shares of all major issuers on the Prague Stock Exchange.

Share Price Development and Trading Activity in 2011[3]

During 2011 PEGAS shares were traded for a total value of CZK 1.8 billion on the Prague Stock Exchange and for a total value of PLN 3.3 million on the Warsaw Stock Exchange. The lowest trading price during the year was CZK 412 and PLN 60.6 and the highest CZK 473 and PLN 80.5 on the Prague and Warsaw Stock Exchanges respectively.

The closing price on 31 December, 2011 was CZK 457 on the Prague Stock Exchange and PLN 77.45 on the Warsaw Stock Exchange and the market capitalization of PEGAS reached CZK 4.2 billion (based on the Prague Stock Exchange quote).

[2] Due to the execution of the placement on the stock exchanges in Prague and Warsaw, there is no official price in EUR. The CZK/EUR FX rate from 10 July, 2007 was 28.601.

[3] Source Bloomberg and PSE

DURING 2011 PEGAS SHARES WERE TRADED FOR A TOTAL VALUE OF CZK 1.8 BILLION ON THE PRAGUE STOCK EXCHANGE AND FOR A TOTAL VALUE OF PLN 3.3 MILLION ON THE WARSAW STOCK EXCHANGE.

Share Price Development in 2011

ON 18 JULY, 2011 THE BOARD OF DIRECTORS OF PEGAS NONWOVENS SA APPROVED A DIVIDEND PAYMENT TO THE COMPANY'S SHAREHOLDERS IN THE TOTAL AMOUNT OF EUR 9,229,400, REPRESENTING EUR 1.00 PER SHARE.

Changes in the Shareholders' Structure in 2011

The total stake held by the management of the Company as of 31 December, 2011 was 0.9% and remained unchanged during the year.

On 18 March, 2011 the Company received a notification that clients and funds managed by Templeton Asset Management Ltd. held as of 17 March, 2011 903,059 shares in the Company (managed by custodians Banque Generale Du Lux and Fortis Banque Luxembourg), constituting 9.78% of the share capital and of the total voting rights attached to the shares issued by the Company. Prior to 17 March, 2011, clients and funds managed by Templeton Asset Management Ltd. had held 928,659 shares in the Company, constituting 10.06% of the share capital and voting rights attached to the shares issued by the Company.

On 16 June, 2011 the Company received a notification that investment funds managed by AEGON Hungary Fund Management Co. were as of 7 June, 2011 jointly holding 67,321 shares in the Company, constituting 0.73% of the share capital and of the total voting rights attached to the shares issued by the Company. Prior to 7 June, 2011, funds managed by AEGON Hungary Fund Management Co. had jointly held 469,027 shares in the Company, constituting 5.08% of the share capital and voting rights attached to the shares issued by the Company.

On 6 October, 2011 the Company received a notification that Wood & Company Funds SICAV PLC that it held as of 4 October, 2011 974,491 shares in the Company, constituting 10.56% of the share capital and of the total voting rights attached to the shares issued by the Company. Prior to 4 October, 2011, Wood & Company Funds SICAV PLC had jointly held 682,491 shares in the Company, constituting 7.39% of the share capital and voting rights attached to the shares issued by the Company.

Dividend Policy

On 18 July, 2011 the Board of Directors of PEGAS NONWOVENS SA approved a dividend payment to the Company's shareholders in the total amount of EUR 9,229,400, representing EUR 1.00 per share (for a total of 9,229,400 shares). The record date (i.e. the day at the end of which shares entitled to a dividend are registered at accounts of the entitled persons held by the settlement systems of Centrální depozitář cenných papírů, a.s, NDS or by other systems) was set to 20 October, 2011 and the dividend payment date was set to 27 October, 2011. The dividend was paid from the share premium account of the Company and its payment did not require the approval of the General Meeting of Shareholders.

Subject to maintaining satisfactory financial performance and the absence of other attractive opportunities, PEGAS will endeavour to continue with a progressive dividend policy. No specific payout ratio in

Procter & Gamble Awards

terms of Net Profit or an anticipated dividend yield has been set by the Company.

PEGAS's Investor Relations Commitment

In the period since the IPO, PEGAS has focused on developing research coverage for the Company, developing relationships with analysts and setting up investor relations communications according to the best market standards. At present, the Company has eight sell-side analysts who publish research on the Company and a number of other commenting analysts from both international investment banks and local Czech financial institutions.

PEGAS is dedicated to open and pro-active communication with its shareholders and has implemented a schedule of investor communications events, which is fully compliant with market standards for listed companies.

IR Contact Details

Investor Relations

Address: Přímětická 3623/86, 669 04 Znojmo, Czech Republic
Phone number: +420 515 262 408
Fax number: +420 515 262 505
e-mail: iro@pegas.cz
website: www.pegas.cz, www.pegas.lu

Financial Results Calendar for 2012

24 May, 2012	Q1 2012 unaudited consolidated financial results of PEGAS NONWOVENS SA in accordance with IFRS
15 June, 2012	Annual General Meeting of Shareholders
30 August, 2012	Half Year Report for the 1st half of 2012. 1st half 2012 unaudited consolidated financial results of PEGAS NONWOVENS SA in accordance with IFRS
22 November, 2012	Q1–Q3 2012 unaudited consolidated financial results of PEGAS NONWOVENS SA in accordance with IFRS

7 Corporate Governance

PEGAS NONWOVENS SA, Luxembourg, parent holding company, is a 100% owner of the operating subsidiary PEGAS NONWOVENS s.r.o. based in Znojmo, Czech Republic. PEGAS NONWOVENS s.r.o. owns 100% of the capital of its three operating subsidiaries which are incorporated in the Czech Republic.

All of the operating assets are owned by PEGAS NONWOVENS s.r.o. and its 3 subsidiaries: PEGAS-NT a.s., PEGAS - NW a.s. and PEGAS - NS a.s. The Company's relations with suppliers and customers are carried out by PEGAS NONWOVENS s.r.o. In 2011, following the expiry of the investment incentives, PEGAS-DS a.s. was merged with PEGAS NONWOVENS s.r.o. The merger had no effect on Company's business.

In 2010 PEGAS NONWOVENS International s.r.o. was established as a special purpose vehicle for realization of potential investment opportunities. In 2011, PEGAS NONWOVENS EGYPT LLC was established in order to carry out the Group's investments in Egypt.

BOARD OF DIRECTORS

The Company is administered and managed by a Board of Directors. The Board of Directors is vested with the broadest powers to perform all acts of administration and disposition in PEGAS' interest. All powers not expressly reserved by Luxembourg law or PEGAS' Articles of Association to PEGAS' general meeting of shareholders fall within the powers of the Board of Directors.

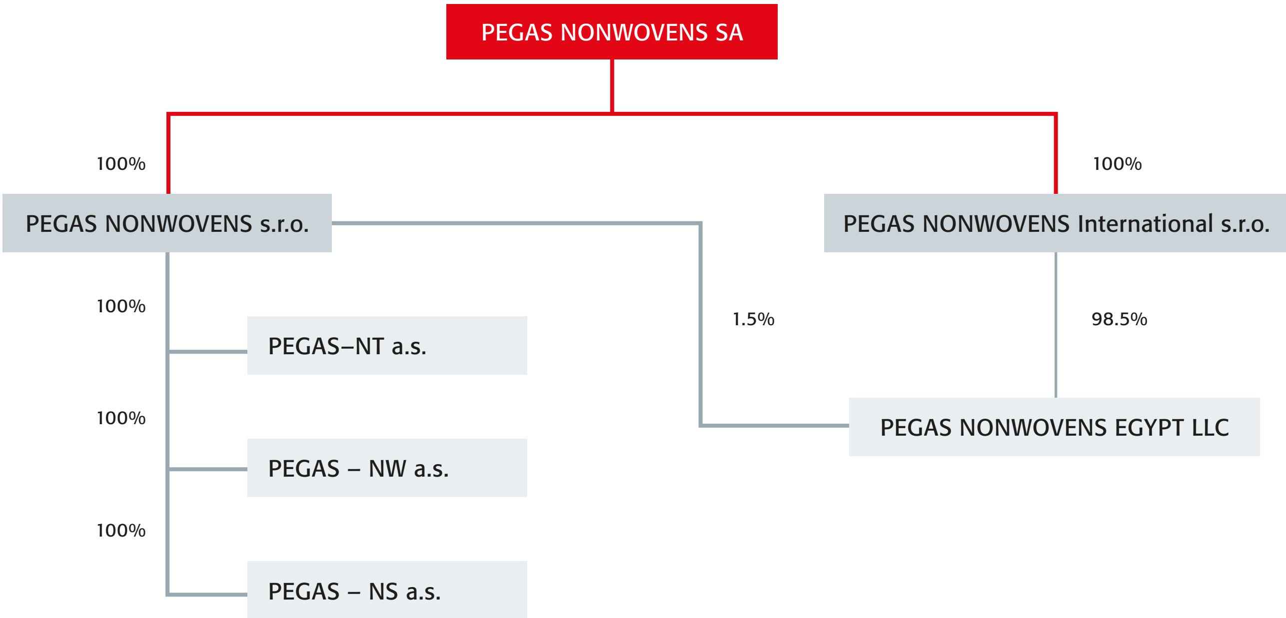
The director(s) of the Company are appointed by a General Meeting of Shareholders for a term which may not exceed six years. The director(s) may be dismissed at any time and at the sole discretion of a General Meeting of Shareholders, and may be reappointed without restrictions.

Members of the Board of Directors

The following table sets out information with respect to each of the members of the Company's Board of Directors, their respective ages, and their positions within the Company.

ORGANISATIONAL STRUCTURE

The diagram below represents current structure of the Group as at 31 December, 2011:



Board of Directors

Name	Age	Position/Function	Business Address	Function period in 2011
František Řezáč	38	Executive Director	Přímětická 86, 669 04, Znojmo, Czech Republic	1. 1. 2011–31. 12. 2011
František Klaška	55	Executive Director	Přímětická 86, 669 04, Znojmo, Czech Republic	1. 1. 2011–31. 12. 2011
Marian Rašík	40	Executive Director	Přímětická 86, 669 04, Znojmo, Czech Republic	1. 1. 2011–31. 12. 2011
Marek Modecki	53	Non-Executive Director, Chairman of the Board	68-70, boulevard de la Pétrusse, Luxembourg, L-2320, Grand Duchy of Luxembourg	1. 1. 2011–31. 12. 2011
Neil Everitt	51	Non-Executive Director	68-70, boulevard de la Pétrusse, Luxembourg, L-2320, Grand Duchy of Luxembourg	1. 1. 2011–31. 12. 2011

Brief biographical and professional details concerning the Company's directors are set forth below:

František Řezáč
aged 38, is a graduate of the Law Faculty of Masaryk University in Brno. He joined PEGAS in 1996 while still studying at university and then worked in various managerial positions at the Company. He held the position of the Legal and Human Resource Department Director and from 2004 was Sales Director. He became CEO in October 2008. He has been Executive Director of the holding company PEGAS NONWOVENS SA since November 2006.

František Klaška
aged 55, was appointed an executive director of the Company in November 2006. Mr. Klaška has been with the Company since 1991, having previously worked for 5 years in Zbrojovka Brno, a diversified engineering company. He was promoted to his current position of Technical and Development Director of PEGAS NONWOVENS s.r.o. in 2001. Mr. Klaška is a graduate of the Czech Technical University.


František Řezáč


František Klaška


Marian Rašík


Marek Modecki


Neil Everitt

Marian Rašík
aged 40, was appointed as an executive director as of 1 March, 2010. In December 2009, he was appointed as the CFO of PEGAS NONWOVENS s.r.o. Prior to joining PEGAS, he worked as a director at a financial advisory firm Corpin Partners. In 2003–2005 he was a CFO at Vítkovice Strojírenství a.s. In the past he also worked with VÚB Bank in the Prague branch, ABN AMRO and he started his professional career as an auditor with Coopers & Lybrand. Marian Rašík graduated from the Economics Faculty of the Technical University in Ostrava.

Marek Modecki
aged 53, was appointed as a non-executive director in April 2008. Mr. Modecki is a senior banker and member of the Supervisory Board of Concordia Espirito Santo Investment Ltd. in Poland, responsible for mergers & acquisitions and private banking. He graduated from Warsaw University with a Master's degree in law and also studied International Law at the Max Planck Institute in Hamburg and law at the University in Hamburg.

Neil Everitt
aged 51, was appointed as a non-executive director as of 30 March, 2010. He serves as the Chairman of the Board of South Asian Real Estate Ltd, and concurrently he is also Chairman of the Young Presidents' Organization (YPO) for the European region. Mr. Everitt was the CEO of Stock Spirits Group, Central Europe's leading spirits producer. Previously he spent 11 years with Allied Domecq plc, Europe, latter in the position of President. In his earlier career Mr. Everitt held a number of management positions in South America and Europe with British American Tobacco plc. Mr Everitt is a graduate of the University of London, where he studied Veterinary Medicine and also completed the Advanced Management programme at INSEAD.

There were no changes to the Board of Directors in 2011.

The following table sets out past and current directorships held by the directors in the past five years. Other directors than those stated below do not hold or did not hold any director positions outside the Company.

At the date of the Annual Report, no member of the Board of Directors has, in the previous five years, (i) been convicted of any offences relating to fraud; (ii) held an executive position at any company at the time of or immediately preceding any bankruptcy, receivership or liquidation; (iii) been subject to any official public sanction by any statutory or regulatory authority (including any designated professional body), or (iv) been the subject of any official public incrimination or been disqualified by a court from acting as a member of the administrator, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company. Except as disclosed in this report, no member of the Board of Directors has a conflict of interest (actual or potential) between his private interests and his duties to the Company.

No member of the Board of Directors holds a supervisory or a non-executive position in another listed company or carries on principal activities outside the Company which are significant with respect to the Company.

Name	Positions held
Marek Modecki	**Former directorships:**
	Supervisory Board member of Concordia Espirito Santo Investment Ltd.
	Supervisory Board member of Prokom Software SA
	Supervisory Board member of Metalexport SA
	Supervisory Board member Petrolinvest SA
	Supervisory Board member Polnord SA
	Current Directorships:
	Managing Partner of Concordia Ltd.
	Non-executive member of the Management Board of Immobel SA
	Managing Partner of 21 Concordia Ltd.
Neil J. Everitt	**Former directorships:**
	Stock Spirits Group SA
	Current Directorships:
	South Asian Real Estate Ltd, Isle of Man

REMUNERATION OF DIRECTORS AND MANAGEMENT

The objective of the Company's remuneration policy is to provide a compensation programme that allows the company to attract, retain and motivate the members of the Board of Directors and other Group managers who have the character traits, skills and background to successfully lead and manage the Company. The remuneration committee was established by a resolution of the Board of Directors in July 2008. As at 31 December 2011 members of the remuneration committee were Marek Modecki (Chairman) and Neil Everitt.

Information on Shares Held by the Management

As of 31 December, 2011, Board members of PEGAS held together 56,291 shares of PEGAS, representing 56,291 of aggregate voting rights.

Persons discharging managerial responsibilities within an issuer held as of 31 December, 2011 29,132 shares of PEGAS, representing 29,132 of aggregate voting rights.

Cash-settled Share-based Payment for Executive Managers and Non-executive Directors

On 15 June, 2010 the AGM approved new principles of share price bonus plan for members of the senior management and the members of the Board of Directors. The goal of the new programme was to enhance its motivation function and to extend it to the new members of the senior management and the Board of Directors. Therefore, the AGM Meeting resolved to issue an aggregate amount of 230,735 phantom options (representing 2.5% of share capital of PEGAS NONWOVENS SA) to the directors and senior management of PEGAS and/or its affiliates, against no consideration. Each phantom option, when exercised, will grant the director the right to receive a phantom share, i.e. the right to receive in cash an amount equal to the difference between CZK 473.00 representing the PEGAS's share price on the Prague Stock Exchange (the "PSE") as of

in EUR		Remuneration in 2011			
		PEGAS NONWOVENS SA	Other Group Companies		
		Pecuniary Income	Pecuniary Income	Received in kind	TOTAL
Members of the Board of Directors	Board Remuneration	347,331	--	--	347,331
	Salaries and other similar income	--	94,811	19,442	114,253
	Management Bonus	--	74,391	--	74,391
	Other (compensation)	41,283	--	--	41,283
	TOTAL	388,614	169,202	19,442	577,258
Management of the Group Companies*	Salaries and other similar income	--	518,312	51,220	569,532
	Management Bonus	--	102,361	--	102,361
	Board Remuneration (incl. Supervisory Board)	--	81,368	--	81,368
	TOTAL	--	702,041	51,220	753,261
TOTAL		388,614	871,243	70,662	1,330,519

* In compliance with a definition of "persons discharging managerial responsibilities within an issuer" according to the Directive 2003/6/EC of the European Parliament and of the Council of 28 January, 2003 on insider dealing and market manipulation (market abuse) and to the Commission Directive 2004/72/EC of 29 April, 2004 implementing Directive 2003/6/EC. Total number of persons included 15.

15 December, 2009 increased by 10%, and the closing price of one PEGAS's share on the day preceding the day of exercise of the phantom option on the PSE (or other market if the PSE trading is discontinued). 25% of phantom options (i.e. 57,684 options) will vest yearly, with the first options vesting on 18 December, 2010 and the last options vesting on 18 December, 2013, whereas the first options vesting on 18 December, 2010 will fully replace the last options of current share price bonus plan, approved at the AGM in 2007, vesting at the same date. Therefore the right for remaining 34,008 options (with vesting date on 18 December, 2010) granted in 2007 and approved by the Annual General Meeting held on 15 June, 2007 was abandoned. Entitled rights for part of phantom options granted in 2007 expired due to leave of former directors of the Company.

The AGM authorised and empowered the Board of Directors to allocate the above mentioned phantom options between the directors and senior management in accordance with criteria determined by, and at the discretion of, the Board of Directors.

Total number of issued phantom shares was 356,839 as of 31 December, 2011.

The Company and the operating companies are currently not intending to create and have not created a share option plan for the benefit of their employees.

Management Bonus Scheme

The principles of the bonus scheme for 2008 and for the following financial years targeted to the senior management of PEGAS Group were approved by the AGM in 2008.
The key elements of the bonus scheme are as follows:

- The scheme was designed to ensure that senior management is focused on delivering the Company's budgeted economic results represented by the Budgeted EBITDA and is valid for the accounting years of 2008 and onwards.
- Basis for the bonus calculation is EBITDA calculated in accordance with Czech and Luxembourg GAAP, as the consolidated profit for the Group adjusted for certain extraordinary items, gains or losses specified further in the document which was available at the AGM.
- If achieved EBITDA is equal to Budgeted EBITDA, the paid bonus will be the Target bonus. If the achieved EBITDA is below or above the Budgeted EBITDA, the amount of the target bonus will be decreased or increased up to the amount of a maximum bonus in accordance with criteria set for each year by the Board of Directors.

The achieved EBITDA in 2011 was 3% lower than the Budgeted EBITDA, to which the full target bonus was linked.

Remunerations of Persons Discharging Managerial Responsibilities

Persons discharging managerial responsibilities are entitled to the management bonus which is partly based on the Budgeted EBITDA and is determined by the same principles as the above mentioned management bonus scheme. In addition, the second part of the persons discharging managerial responsibilities bonus is based on the appraisal of the superior.

CORPORATE GOVERNANCE

Pursuant to the Warsaw Stock Exchange By-laws, and in connection with the listing of the Company's shares on the Warsaw Stock Exchange, the Company is required to declare which of the Polish principles of corporate governance contained in the WSE Corporate Governance Rules it intends to comply with, as well as to enumerate the principles which it does not intend to comply with and to state the reasons for the non-compliance. The original WSE Corporate Governance Rules adopted by the Company during the IPO were amended based on Resolution No. 13/1171/2007 of the Warsaw Stock Exchange Supervisory Board dated 4 July, 2007 concerning amendment of the WSE Rules.

The Company has decided to observe the majority of the WSE Corporate Governance Rules as stated in detail below.

STATEMENT ON WARSAW STOCK EXCHANGE CORPORATE GOVERNANCE RULES as amended in 2008 and 2010

Recommendations for Best Practice for Listed Companies	
1.	A company should pursue a transparent and effective information policy using both traditional methods and modern technologies and latest communication tools ensuring fast, secure and effective access to information. Using such methods to the broadest extent possible, a company should in particular: - maintain a company website whose scope and method of presentation should be based on the model investor relations service available at http://naszmodel.gpw.pl/; - ensure adequate communication with investors and analysts, and use to this purpose also modern methods of Internet communication; - enable on-line broadcasts of General Meetings over the Internet, record General Meetings, and publish the recordings on the company website.
2.	[deleted]
3.	A company should make every effort to ensure that any cancellation of a General Meeting or change of its date should not prevent or restrict the exercise of the shareholders' right to participate in a General Meeting.
4.	Where securities issued by a company are traded in different countries (or in different markets) and in different legal systems, the company should strive to ensure that corporate events related to the acquisition of rights by shareholders take place on the same dates in all the countries where such securities are traded.
5.	A company should have a remuneration policy and rules of defining the policy. The remuneration policy should in particular determine the form, structure, and level of remuneration of members of supervisory and management bodies. Commission Recommendation of 14 December 2004 fostering an appropriate regime for the remuneration of directors of listed companies (2004/913/EC) and Commission Recommendation of 30 April 2009 complementing that Recommendation (2009/385/EC) should apply in defining the remuneration policy for members of supervisory and management bodies of the company.
6.	A member of the Supervisory Board should have appropriate expertise and experience and be able to devote the time necessary to perform his or her duties. A member of the Supervisory Board should take relevant action to ensure that the Supervisory Board is informed about issues significant to the company.
7.	Each member of the Supervisory Board should act in the interests of the company and form independent decisions and judgments, and in particular: - refuse to accept unreasonable benefits which could have a negative impact on the independence of his or her opinions and judgments; - raise explicit objections and separate opinions in any case when he or she deems that the decision of the Supervisory Board is contrary to the interest the company.
8.	No shareholder may be given undue preference over other shareholders with regard to transactions and agreements made by the company with shareholders and their related entities.
9.	The WSE recommends to public companies and their shareholders that they ensure a balanced proportion of women and men in management and supervisory functions in companies, thus reinforcing the creativity and innovation of the companies' economic business.

No.	RULE	YES/NO	COMMENT OF PEGAS NONWOVENS SA
Best Practice for Management Boards of Listed Companies			
1	A company should operate a corporate website and publish on it, in addition to information required by legal regulations: 1) basic corporate regulations, in particular the statutes and internal regulations of its governing bodies;	YES	
	2) professional CVs of the members of its governing bodies;	YES	
	3) current and periodic reports;	YES	
	4) [deleted]		
	5) where members of the company's governing body are elected by the General Meeting – the basis for proposed candidates for the company's Management Board and Supervisory Board available to the company, together with the professional CVs of the candidates within a timeframe enabling a review of the documents and an informed decision on a resolution;	YES	
	6) annual reports on the activity of the Supervisory Board taking account of the work of its committees together with the evaluation of the work of the Supervisory Board and of the internal control system and the significant risk management system submitted by the Supervisory Board;	NO	We are unable to comply with this rule as there is a single board structure in the Company – there is no Supervisory Board.
	7) shareholders' questions on issues on the agenda submitted before and during a General Meeting together with answers to those questions;	YES	No such issues on the agenda have been submitted during preceding General Meetings.
	8) information about the reasons for cancellation of a General Meeting, change of its date or agenda together with grounds;	YES	No such issues on the agenda have been submitted during preceding General Meetings.
	9) information about breaks in a General Meetings and the grounds of those breaks;	YES	No such breaks have been taken during preceding General Meetings.
	10) information on corporate events such as payment of the dividend, or other events leading to the acquisition or limitation of rights of a shareholder, including the deadlines and principles of such operations. Such information should be published within a timeframe enabling investors to make investment decisions;	YES	
	11) information known to the Management Board based on a statement by a member of the Supervisory Board on any relationship of a member of the Supervisory Board with a shareholder who holds shares representing not less than 5% of all votes at the company's General Meeting;	NO	We are unable to comply with this rule as there is a single board structure in the Company – there is no Supervisory Board.
	12) where the company has introduced an employee incentive scheme based on shares or similar instruments – information about the projected cost to be incurred by the company from to its introduction;	YES	
	13) a statement on compliance with the corporate governance rules contained in the last published annual report, as well as the report referred to in § 29.5 of the Exchange Rules, if published;	YES	
	14) information about the content of the company's internal rule of changing the company authorised to audit financial statements or information about the absence of such rule.	YES	

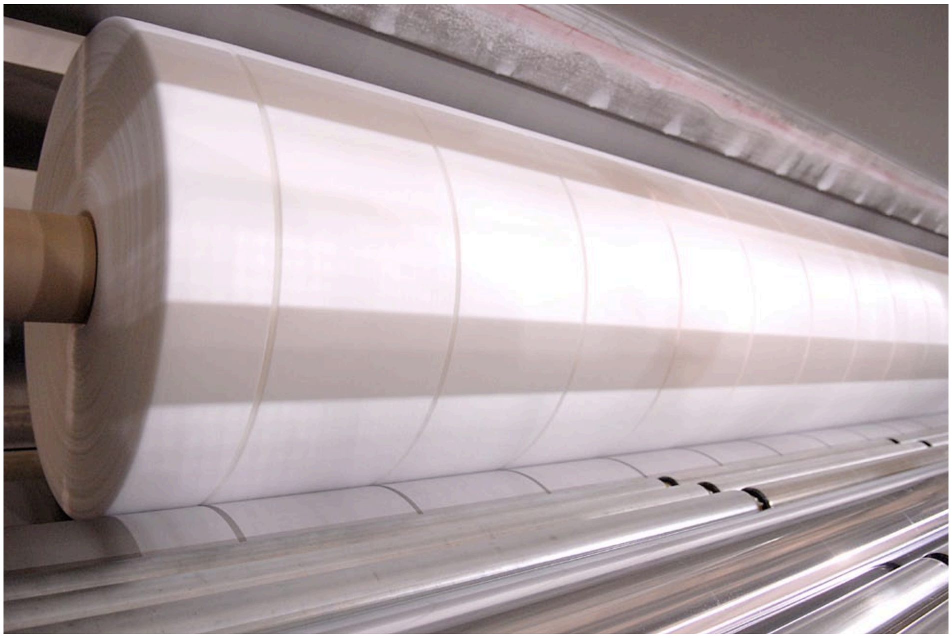
No.	RULE	YES/NO	COMMENT OF PEGAS NONWOVENS SA
2	A company should ensure that its website is also available in English, at least to the extent described in section II.1.	YES	
3	Before a company executes a significant agreement with a related entity, its Management Board shall request the approval of the transaction/agreement by the Supervisory Board. This condition does not apply to typical transactions made on market terms within the operating business by the company with a subsidiary where the company holds a majority stake. For the purpose of this document, related entity shall be understood within the meaning of the Regulation of the Minister of Finance issued pursuant to Article 60.2 of the Act on Public Offering, Conditions Governing the Introduction of Financial Instruments to Organised Trading, and Public Companies (Dz.U. No. 184, item 1539, as amended).	NO	We are partially unable to comply with this rule as there is a single board structure in the Company – there is no Supervisory Board.
4	A member of the Management Board should provide notification of any conflicts of interest which have arisen or may arise, to the Management Board and should refrain from taking part in the discussion and from voting on the adoption of a resolution on the issue which gives rise to such a conflict of interest.	YES	
5	[deleted]		
6	A General Meeting should be attended by members of the Management Board who can answer questions submitted at the General Meeting.	YES	
7	A company shall set the place and date of a General Meeting so as to enable the participation of the highest possible number of shareholders.	YES	
8	If a company's Management Board is informed that a General Meeting has been summoned pursuant to Article 399 § 2–4 of the Code of Commercial Partnerships and Companies, the company's Management Board shall immediately perform the actions it is required to take in connection with organising and conducting a General Meeting. This rule shall also apply if a General Meeting is summoned on the basis of authorisation given by the registration court pursuant to Article 400 § 3 of the Code of Commercial Partnerships and Companies.	NO	Article 399 § 2–4 of the Code of Commercial Partnerships and Companies does not apply to our company as it is registered in Luxembourg. However, there are similar provisions under Luxembourg law and our Articles.

Best Practices of Supervisory Boards

1	In addition to its responsibilities laid down in legal provisions the Supervisory Board should: 1) once a year prepare and present to the Ordinary General Meeting a brief assessment of the company's standing including an evaluation of the internal control system and the significant risk management system; 2) once a year prepare and present to the Ordinary General Meeting an evaluation of its work; 3) review and present opinions on issues subject to resolutions of the General Meeting.	NO	As there is no Supervisory Board in the Company, we are unable to comply with this rule.

No.	RULE	YES/NO	COMMENT OF PEGAS NONWOVENS SA
2	A member of the Supervisory Board should submit to the company's Management Board information on any relationship with a shareholder who holds shares representing not less than 5% of all votes at the General Meeting. This obligation concerns financial, family, and other relationships which may affect the position of the member of the Supervisory Board on issues decided by the Supervisory Board.	YES	Under Article 9.16 of the Articles of Association, a director having a personal interest contrary to that of the Company in a matter submitted to the approval of the Board of Directors shall be obliged to inform the Board of Directors thereof and to have his declaration recorded in the minutes of the meeting. He may not take part in the relevant proceeding of the Board of Directors. At the next General Meeting, before votes are taken on any other matter, the shareholder shall be informed of those cases in which a director had a personal interest contrary to that of the Company.
3	A General Meeting should be attended by members of the Supervisory Board who can answer questions submitted at the General Meeting.	NO	As there is no Supervisory Board in the Company, we are unable to comply with this rule.
4	A member of the Supervisory Board should notify any conflicts of interest which have arisen or may arise to the Supervisory Board and should refrain from taking part in the discussion and from voting on the adoption of a resolution on the issue which gives rise to such a conflict of interest.	YES	Under Article 9.16 of the Articles of Association, a director having a personal interest contrary to that of the Company in a matter submitted to the approval of the Board of Directors shall be obliged to inform the Board of Directors thereof and to have his declaration recorded in the minutes of the meeting. He may not take part in the relevant proceeding of the Board of Directors. At the next General Meeting, before votes are taken on any other matter, the shareholder shall be informed of those cases in which a director had a personal interest contrary to that of the Company.
5	A member of the Supervisory Board should not resign from this function if this action could have a negative impact on the Supervisory Board's capacity to act, including the adoption of resolutions by the Supervisory Board.	NO	As there is no Supervisory Board in the Company, we are unable to comply with this rule.
6	At least two members of the Supervisory Board should meet the criteria of being independent from the company and entities with significant connections with the company. The independence criteria should be applied under Annex II to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors of listed companies and on the committees of the (supervisory) board. Irrespective of the provisions of point (b) of the said Annex, a person who is an employee of the company or an associated company cannot be deemed to meet the independence criteria described in the Annex. In addition, a relationship with a shareholder precluding the independence of a member of the Supervisory Board as understood in this rule is an actual and significant relationship with any shareholder who has the right to exercise at least 5% of all votes at the General Meeting.	NO	As there is no Supervisory Board in the Company, we are unable to comply with this rule.
7	[deleted]		
8	Annex I to the Commission Recommendation of 15 February 2005 on the role of non-executive or supervisory directors… should apply to the tasks and the operation of the committees of the Supervisory Board.	NO	

No.	RULE	YES/NO	COMMENT OF PEGAS NONWOVENS SA
9	Execution by the company of an agreement/transaction with a related entity which meets the conditions of section II.3 requires the approval of the Supervisory Board.	NO	As there is no Supervisory Board in the Company, we are unable to comply with this rule.
	Best Practices of Shareholders		
1	Presence of representatives of the media should be allowed at General Meetings.	NO	
2	The rules of General Meetings should not restrict the participation of shareholders in General Meetings and the exercising of their rights. Amendments of the rules should take effect at the earliest as of the next General Meeting.	YES	
3	[deleted]		
4	A resolution of the General Meeting concerning an issue of shares with subscription rights should specify the issue price or the mechanism of setting it or obligate the competent body to set it before the date of subscription rights within a timeframe enabling an investment decision..	YES	
5	Resolutions of the General Meeting should allow for a sufficient period of time between decisions causing specific corporate events and the date of setting the rights of shareholders pursuant to such events.	YES	
6	The date of setting the right to dividend and the date of dividend payment should be set so to ensure the shortest possible period between them, in each case not longer than 15 business days. A longer period between these dates requires detailed grounds.	YES	
7	A resolution of the General Meeting concerning a conditional dividend payment may only contain such conditions whose potential fulfilment must take place before the date of setting the right to dividend.	YES	
8	[deleted]		
9	A resolution of the General Meeting to split the nominal value of shares should not set the new nominal value of the shares at a level which could result in a very low unit market value of the shares, which could consequently pose a threat to the correct and reliable valuation of the company listed on the Exchange.	YES	
10	A company should enable its shareholders to participate in a General Meeting using electronic communication means through: 1) real-life broadcast of General Meetings; 2) real-time bilateral communication where shareholders may take the floor during a General Meeting from a location other than the General Meeting; 3) exercise their right to vote during a General Meeting either in person or through a plenipotentiary. This rule should be applied not later than 1 January 2012.	NO	Shareholders can vote through a plenipotentiary, however point 1) and 2) are not arranged so far. Under review by the management of the Company.



PEGAS manufactures its products according to each customer's specifications

RISK FACTORS

The Company's business, results of operations and financial condition may be adversely affected by the following risks:

Marketing and Sales

PEGAS operates in a highly competitive market and the emergence of new competitors or introduction of new capacities by one of the existing competitors in the hygiene segment could adversely affect sales and margins.

A high concentration of customers accounts for a significant percentage of the total sales, and the loss of one or more of them could significantly affect the Company's revenues and profitability.

A change in the demand of end-user of hygiene products and a shift of their preferences for cheaper products could lead to a change in the product mix at PEGAS and affect the Company's revenues and profitability.

Production

Any disruption to PEGAS production facilities would have a material adverse effect on the Company's business. PEGAS is dependent on one manufacturer for the equipment and technical support in production lines. There is a risk that PEGAS may not be able to reconfigure production lines on a timely basis in order to respond to changing demand for particular kinds of spunmelt nonwovens. Machinery from other producers may prove more efficient and develop faster than the machinery supplier of PEGAS.

The Company's competitors may have access to more and cheaper sources of capital allowing them to modernise and expand their operations more quickly giving them a substantial competitive advantage over PEGAS.

The steady supply and transportation of products from PEGAS' plants to the customers are subject to various uncertainties and risks.

PEGAS depends on external suppliers for key raw materials, therefore increases in the cost of raw materials, electricity and other consumables could have a material adverse impact on the Company's financial condition and results of operations, although a polymer price increase is by large transferred to customer prices.

Research and Development

The Company's competitors may develop new materials demanded by customers and gain a competitive advantage, which could adversely affect the Company's sales and margins.

Potential Expansion

PEGAS is facing risks associated with potential acquisitions, investments, strategic

Jumbo rolls are cut into precise widths based on customers' requirements

partnerships or other ventures, including opportunity identification, risk of the completion of the transaction and the integration of the other parties into PEGAS' business.

Legal and Intellectual Property

PEGAS' operations are exposed to financial and operating uncertainty and are subject to government laws and regulations that may adversely affect results of operations and financial conditions.

PEGAS may be in breach of intellectual property rights of others.

Adverse outcomes in litigation to which PEGAS might be a party could harm the business and its prospects.

Finance

The indebtedness of PEGAS could adversely affect the financial condition and results of operations. There is a risk that interest rates on outstanding external debt could be reassessed by the banks and increased on the back of the financial sector crisis and therefore increased interest costs could affect the Company's profitability.

The current level of indebtedness and conditions imposed on external debt (covenants) may potentially lead to a modification of the current progressive dividend policy of the Company.

There is a risk that the fluctuations in the value of the Czech koruna against EUR could adversely affect the Company's profitability. PEGAS's operating subsidiaries avail themselves of tax benefits offered by the Czech government. Hence, the Company's profitability could decrease owing to any adverse change in general tax policies or if the tax benefits were reduced or withdrawn.

The fluctuation of the polymer prices, which are passed on to the customers with some delay may on a short term basis affect the Company's revenues and profitability.

The insurance coverage may not adequately protect PEGAS against possible risk of loss.

Security, Environment and Safety

Compliance with, and changes in, safety, health and environmental laws and regulations may adversely affect the Company's results of operations and financial conditions.

Key Personnel and Technical Expertise

The loss of the services of key management personnel could adversely affect the Company's business.

PEGAS may not be able to hire and retain sufficient numbers of qualified professional personnel because these personnel are limited in number and are in high demand.

Ownership Changes

PEGAS is a 100% free float and its ownership structure is very fragmented and divided among many shareholders. A potential entry of a majority investor into the Company could result in a sudden change of the long term strategy and impact value of the shares.

Risk Factors Relating to Egypt Investment

Investing in emerging markets such as Egypt, generally involves a higher degree of risk than investments in more developed countries. These higher risks include, but are not limited to changes in the political environment, transfer of returns, expropriation or politically motivated violent damage. The Egyptian economy is susceptible to future adverse effects similar to those suffered by other emerging market countries.

Egypt is located in a region which has been subject to ongoing political and security concerns, especially in recent years. In common with other countries in the region, Egypt has experienced occasional terrorist attacks in the past. There can be no assurance that extremists or terrorist groups will not escalate or continue occasional violent activities in Egypt or that the government will continue to be generally successful in maintaining the prevailing levels of domestic order and stability.

Although PEGAS entered into an insurance contract with EGAP for the coverage of risks connected with its investment in Egypt, which include insurance of the investment against the risk of prevention of the transfer of returns, expropriation or politically motivated violent damage, there is a risk that the insurance coverage may not adequately protect PEGAS against all possible losses related to its investment in Egypt.

Financial Part

8 Consolidated Financial Statements

of PEGAS NONWOVENS SA for the year ended 31 December, 2011
and Independent Auditor's Report

REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Deloitte.

Deloitte Audit
Société a responsabilité limitée
560, rue de Neudorf
L-2220 Luxembourg
B.P. 1173
L-1011 Luxembourg

Phone: +352 451 451
Fax: +352 451 452 992
www.deloitte.lu

To the Shareholders of
PEGAS NONWOVENS S.A.
68-70, boulevard de la Pétrusse
L-2320 Luxembourg

Report on the consolidated financial statements

Following our appointment by the General Meeting of the Shareholders dated June 15, 2011, we have audited the accompanying consolidated financial statements of PEGAS NONWOVENS S.A, which comprise the consolidated statement of financial position as at December 31, 2011, and the consolidated statement of comprehensive income, statement of changes in equity and consolidated statement of cash flow for the year then ended and a summary of significant accounting policies and other explanatory information.

Responsibility of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union, and for such internal control the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Responsibility of the réviseur d'entreprises agréé

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the *Commission de Surveillance du Secteur Financier*. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the *réviseur d'entreprises agréé's* judgement including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the *réviseur d'entreprises agréé* considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of PEGAS NONWOVENS S.A. as of December 31, 2011, and of its financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Report on other legal and regulatory requirements

The consolidated management report, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements.

The accompanying Corporate Governance Statement on pages 28–42 which is the responsibility of the Board of Directors, includes the information required by the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended and the description included with respect to Article 68bis paragraphs c and d of the aforementioned law is consistent with the consolidated financial statements.

For Deloitte Audit, *Cabinet de révision agréé*

Nick Tabone, *Réviseur d'entreprises agréé*
Partner

April 12, 2012

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

prepared under International Financial Reporting Standards (IFRS).
For the year ended 31 December 2011 (in thousands of EUR)

	Note	2011	2010
Revenue	5 a), b)	165,848	148,150
Raw materials and consumables used	5 c)	(119,671)	(103,627)
Staff cost	5 f), g)	(8,330)	(7,996)
Depreciation and amortization expense	5 h)	(9,213)	(16,353)
Research and development expense	5 e)	(2,347)	(2,063)
Other operating income net	5 d)	566	754
Profit from operations		26,853	18,865
Foreign exchange gains and other financial income	5 i)	10,168	11,302
Foreign exchange losses and other financial expense	5 j)	(14,481)	(4,985)
Interest income	5 k)	24	16
Interest expense	5 l)	(4,281)	(3,300)
Profit before income tax		18,283	21,898
Income tax expense	5 m)	(4,317)	(859)
Net profit for the year		13,966	21,039
Other comprehensive income			
Net value gain on cash flow hedges		(620)	(938)
Changes in translation reserves		(2,394)	4,435
Total comprehensive income for the year		10,952	24,536
Net profit attributable to:			
Equity holders of the Company		13,966	21,039
Minority interest		--	--
		13,966	21,039
Total comprehensive income attributable to:			
Equity holders of the Company		10,952	24,536
Minority interest		--	--
		10,952	24,536
Earnings per share	5 n)		
Basic earnings per share (EUR)		1.51	2.28
Diluted earnings per share (EUR)		1.51	2.28

The Notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

prepared under International Financial Reporting Standards (IFRS).
As at 31 December 2011 (in thousands of EUR)

	Note	31 December 2011	31 December 2010
ASSETS			
Non-current assets			
Property, plant and equipment	5 o)	151,826	107,713
Intangible assets	5 p)	452	219
Goodwill	5 p)	89,927	92,583
Total non-current assets		242,205	200,515
Current assets			
Inventories	5 q)	17,624	14,741
Trade and other receivables	5 r)	36,866	31,280
Cash and cash equivalents	5 s)	6,248	4,685
Total current assets		60,738	50,706
Total assets		302,943	251,221
EQUITY AND LIABILITIES			
Share Capital and reserves			
Share capital	5 t)	11,444	11,444
Share premium	5 v)	--	9,078
Legal reserves	5 w)	6,942	6,034
Translation reserves		4,244	6,638
Cash flow hedging		(1,377)	(757)
Retained Earnings	5 u)	109,511	96,604
Total share capital and reserves		130,764	129,041
Non-current liabilities			
Bank loans	5 x)	125,512	95,450
Other payables	5 y)	55	103
Deferred tax liabilities	5 z)	12,337	10,686
Total non-current liabilities		137,904	106,239
Current liabilities			
Trade and other payables	5 aa)	33,943	13,419
Tax liabilities	5 bb)	95	1,734
Bank current liabilities	5 x)	226	788
Provisions		11	--
Total current liabilities		34,275	15,941
Total liabilities		172,179	122,180
Total equity and liabilities		302,943	251,221

The Notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOW

prepared under International Financial Reporting Standards (IFRS).
For the year ended 31 December 2011 (in thousands of EUR)

	Note	2011	2010
Profit before income tax		18,283	21,898
Adjustment for:			
Amortization and depreciation		9,213	16,353
Foreign exchange (gains)		(178)	(2,095)
Interest expense		4,281	3,300
Fair value changes of interest rate swap		(765)	(1,162)
Other changes in equity		(620)	(938)
Other financial income/(expense)		(55)	8
Cash flows from operating activities			
Decrease / (increase) in inventories		(3,469)	(320)
Decrease / (increase) in receivables		(6,811)	(4,511)
Increase / (decrease) in payables		6,440	(1,680)
Income tax (paid) / received		(5,427)	(1,358)
Net cash from operating activities		20,892	29,495
Cash flows from investment activities			
Purchases of property, plant and equipment		(41,586)	(8,194)
Net cash used in investment activities		(41,586)	(8,194)
Cash flows from financing activities			
Increase / (decrease) in bank loans		34,910	(5,657)
Increase / (decrease) in other payables		(48)	76
Distribution of dividend		(9,229)	(8,768)
Interest paid		(3,437)	(2,732)
Other financial income/(expense)		55	(8)
Net cash used in financing activities		22,251	(17,089)
Net increase in cash and cash equivalents		1,557	4,212
Cash and cash equivalents at the beginning of the period		4,685	473
Effect of exchange rate fluctuations on cash held		6	--
Cash and cash equivalents at 31 December	5 s)	6,248	4,685

The Notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

prepared under International Financial Reporting Standards (IFRS).
For the year ended 31 December 2011 (in thousands of EUR)

	Share capital	Share premium	Legal reserves	Cash flow hedging	Translation reserves	Retained earnings	Total equity attributable to equity holders of the Company	Minority interest	Total equity
as at 1 January 2010	11,444	17,846	4,396	181	2,203	77,203	113,273	--	113,273
Distribution	--	(8,768)	--	--	--	--	(8,768)	--	(8,768)
Other comprehensive income for the year	--	--	--	(938)	4,435	--	3,497	--	3,497
Net profit for the year	--	--	--	--	--	21,039	21,039	--	21,039
Reserves created from retained earnings	--	--	1,638	--	--	(1,638)	--	--	--
as at 31 December 2010	11,444	9,078	6,034	(757)	6,638	96,604	129,041	--	129,041
Distribution	--	(9,078)	--	--	--	(151)	(9,229)	--	(9,229)
Other comprehensive income for the year	--	--	--	(620)	(2,394)	--	(3,014)	--	(3,014)
Net profit for the year	--	--	--	--	--	13,966	13,966	--	13,966
Reserves created from retained earnings	--	--	908	--	--	(908)	--	--	--
as at 31 December 2011	11,444	--	6,942	(1,377)	4,244	109,511	130,764	--	130,764

The Notes are an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

prepared under International Financial Reporting Standards (IFRS)
For the year ended 31 December 2011
(in thousands of EUR)

1. General information and definition of the consolidated entity

Description and principal activities

PEGAS NONWOVENS SA ("the Company"), originally incorporated under the name Pamplona PE Holdco 2 SA, is a commercial company incorporated in Luxembourg on 18 November 2005, under the legal form of a "Société anonyme". The registered office is at 68-70, boulevard de la Pétrusse, L-2320 Luxembourg and the Company is registered with the Commercial Register of Luxembourg under number B 112.044. The Company acts only as a holding company.

On 14 December 2005, the Company acquired full control over the activities of PEGAS a.s. (now PEGAS NONWOVENS s.r.o.)

PEGAS NONWOVENS s.r.o. is incorporated in the Czech Republic. Its registered office is located in Znojmo, Přímětická 86, 669 04. PEGAS NONWOVENS s.r.o. and its subsidiaries (PEGAS-NT a.s., PEGAS – NW a.s., PEGAS – NS a.s.) are engaged in the production of nonwoven textiles. PEGAS – DS a.s., former subsidiary of PEGAS NONWOVENS s.r.o., ceased to exist following its merger with PEGAS NONWOVENS s.r.o. with effect from 1 January 2011.

Within the scope of the international expansion of PEGAS NONWOVENS SA a new company PEGAS NONWOVENS International s.r.o. was established in 2010 and subsequently PEGAS NONWOVENS EGYPT LLC in June 2011, which will invest in the Egyptian production capacity.

The consolidated financial statements of the Company as at and for the year ended 31 December 2011 comprise the Company and its subsidiaries (together referred to as the "Group").

2. Basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and its interpretations as adopted by the European Union.

These consolidated financial statements were approved by the Board of Directors and authorized for issue on 12 April 2012.

(b) Presentation and functional currency

The financial statements are presented in thousands of Euro ("TEUR"). The underlying functional currency of PEGAS NONWOVENS s.r.o. and its subsidiaries is Czech Koruna ("CZK"). Czech Koruna is underlying functional currency of PEGAS NONWOVENS International s.r.o. as well. The functional currency of PEGAS NONWOVENS EGYPT LLC is United States Dollar ("USD"). The financial statements were translated from the functional currencies to the presentation currency. The underlying functional currency of PEGAS NONWOVENS SA is EUR.

(c) Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for derivative financial instruments which are measured at fair value.

(d) Use of estimates and judgments

The preparation of financial statements in compliance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis for making the judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. The actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both the current and future periods.

The management uses the estimates of future cash flows for the purposes of short and long term bank loans classification and for the goodwill impairment testing. The estimates are applied for the determination of useful life of property, plant and equipment in respect of their depreciation. Finished products allocation of overheads based on cost calculation is subject to estimates as well.

3. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements and have been applied consistently by Group entities.

(a) Consolidation methods

The consolidated financial statements incorporate the financial statements of PEGAS NONWOVENS SA and entities controlled by the Company (its subsidiaries). Control exists where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Assets, liabilities and contingent liabilities, which fulfill the criteria for accounting recognition pursuant to IFRS 3, are measured at fair value at the date of acquisition.

Any excess of the cost of acquisition over the fair value of the net identifiable assets acquired is accounted for as goodwill. Any excess of the fair value of the net identifiable assets acquired over the cost of acquisition is accounted for in the income statement in the accounting period in which the acquisition takes place.

Non-controlling interests and ownership interests of minority investors of the consolidated subsidiaries that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are initially valued at the non-controlling interests proportionate share of the recognized amounts of the acquiree's identifiable net assets in the net fair value of assets and liabilities recognized in the accounting or at fair value. The choice of measurement basis is made on a transaction by transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

As and when necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with those used by other members of the Group.

All intra-group transactions, balances, income, expenses and dividends are eliminated on consolidation.

(b) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange based on the National Bank official rates for the last working day of the calendar month to be applied to transactions recorded during the following month.

During the year, exchange gains and losses are only recognized when realized at the time of settlement. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. Foreign currency differences arising on retranslation are recognized in profit or loss.

For the purpose of presenting consolidated financial statements, the assets and liabilities are expressed in EUR (which is the functional currency of the parent company and presentation currency of the Group) using exchange rates ruling at the balance sheet date. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used.

Exchange rates used (source: official rates of Czech National Bank and European Central Bank):

	Exchange rate
Period average (for Statement of Comprehensive Income and Cash Flow Statement)	
1 January 2010–31 December 2010	25.290 CZK/EUR
1 January 2011–31 December 2011	24.586 CZK/EUR
1 January 2011–31 December 2011	1.3900 USD/EUR
Balance sheet date	
Balance sheet as at 31 December 2010	25.060 CZK/EUR
Balance sheet as at 31 December 2011	25.800 CZK/EUR
Balance sheet as at 31 December 2011	1.2939 USD/EUR

Exchange differences arising from translation to the presentation currency are classified as equity and transferred to the Group's translation reserve.

(c) Revenue recognition

Revenues are recognized at fair value of the consideration received or the consideration to be received and represent receivables for goods and services delivered in the normal course of business, net of discounts, VAT and other sales-related taxes.

Revenues from the sale of products are recognized when products are delivered and either the title to the products has been passed to the customer or the risks to the products have been passed to the carrier. Revenues from the sale of services are recognized when the service is rendered.

(d) Segment reporting

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance. Based on analysis of IFRS 8, the Group identified one operating segment, the production of nonwoven textiles.

(e) Research and development

Expenditure on research activities, undertaken with the prospect of acquiring new scientific or technical knowledge and understanding, is recognized in the income statement as an expense as incurred.

Expenditure on development activities is capitalized if the product or process is technically and economically feasible. The expenditure capitalized includes the cost of materials, direct labour and an appropriate proportion of overheads. Other development expenditure is recognized in the income statement as an expense as incurred. Capitalized development expenditure is stated at cost less accumulated amortization and impairment losses.

(f) Borrowing costs

Borrowing costs other that stated below are recognized in the income statement in the period to which they relate.

Borrowing costs that relate to assets that take a substantial period of time to get ready for use or sale are capitalised as part of the cost of such assets.

(g) Taxation

The tax expense in the income statement includes current and deferred tax expenses.

Current tax

Current income tax is based on taxable profit and the tax base. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group’s liability for current tax is calculated using tax rates that have been enacted under local legislation by the balance sheet date.

Deferred tax

Deferred tax liabilities and assets arising from differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases of these assets and liabilities used in the computation of taxable profit are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated using the tax rates that are expected to be applied in the period when the liability is settled or the asset realized. Deferred tax is charged or credited to the profit or loss account except of deferred tax derived from mark-to-market revaluation of interest rate swaps (IRS). The Company designates currently concluded interest rate swaps as cash flow hedges and the changes in fair value of these swaps recognize in equity. The changes in deferred tax derived from the changes in fair value of the swaps are recognized in equity as well.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

(h) Government grants

The Company benefits from the following investment incentives granted by the Czech Government:

Grants and subsidies relating to employees

The Government of the Czech Republic has provided grants to train employees and subsidies to establish new jobs. These grants and subsidies were accounted for in the year in which related expenses were incurred.

Grants relating to income tax

Grants relating to income tax represent investment incentives. The Group does not account for a total tax liability but records its tax liability less the expected amount of investment incentives.

Grants for R&D projects

The Company is successful in obtaining the grants for R&D projects. These grants are tendered under the research and development support programmes by the Czech Ministry of Industry and Trade. The grants for R&D projects are recognized in the statement of comprehensive income in the year in which related expenses were incurred.

Tax deductible items

PEGAS benefits from reduction of tax base by tax deductible items related to research and development expenses.

(i) Property, plant and equipment

Property, plant and equipment is stated at cost (including costs of acquisition) less accumulated depreciation and any recognized impairment loss.

The cost of assets (other than land and assets under construction) is depreciated over their estimated useful lives, using the straight-line method, on the following basis:

Major groups of assets	Number of years
Production lines	15–25
Factory and office buildings	30–60
Cars and other vehicles	5–6

Based on an analysis of useful lifetime of the property, plant and equipment the Company decided to prolong the residual estimated useful lifetime of the production technology (the overall estimated useful lifetime of technology increased from 12–20 years to 15–25 years). This change was effective as from 1 January 2011. The prolongation of the estimated useful lifetime caused a decrease of depreciation and amortization expense in 2011 by approximately EUR 6.7 million. The depreciation will be reduced in 2012 by approximately EUR 5.9 million and in 2013 by EUR 1.9 million, while impact on 2014 and onwards is not material.

The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

(j) Intangible assets

Purchased intangible assets are stated at cost less accumulated amortization. They are amortized on a straight-line basis over their estimated useful lives.

The carrying amounts of intangible assets are reassessed to identify impairment losses where events or changes of facts indicate that the carrying amount of each individual asset exceeds its recoverable amount.

Intangible assets primarily include software, which is amortised on a straight-line basis over its estimated useful life, which is eight years. The item covers capitalized intangible asset arising from development as well.

(k) Goodwill

Goodwill represents a positive difference between the cost of acquisition and the fair value of the acquired interest in net identifiable assets and liabilities of a subsidiary as at the date of acquisition. Goodwill arising on an acquisition of subsidiaries is presented as a separate intangible asset. After the initial recognition, goodwill is stated at cost less impairment losses.

(l) Impairment of assets and goodwill

At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs to sell and value in use. In assessing the value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

For the purposes of impairment testing, goodwill is analyzed annually. If the recoverable amount is less than the carrying amount of the assets, the impairment loss is allocated first to reduce the carrying amount of the goodwill and then to the other assets pro-rata on the basis of the carrying amount of each asset. An impairment loss recognized for goodwill is not reversed in a subsequent period.

The management has determined that for goodwill testing purposes all goods producing subsidiaries are considered as one cash generating unit.

(m) Inventories

Inventories are stated at the lower of cost and net realisable value. The cost comprises direct materials and, where applicable, direct labour costs and those overheads that have been incurred in bringing the inventories to their present location and condition, based on normal operating capacity, excluding finance costs. The cost is calculated using the weighted average method.

The net realisable value is the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

(n) Financial instruments

Financial assets and financial liabilities are recognized in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

(o) Derivative financial instruments

The Group's operating activities are primarily exposed to financial risks such as changes in foreign exchange rates and interest rates. Where necessary, the Group uses derivative financial instruments to cover these risks.

The Group uses interest rate swaps to cover the risk of changes in interest rates.

Interest rate swaps which are not designed as hedging instruments are in accordance with IAS 39 classified as held-for-trading and carried at fair value presented in current assets/liabilities, with changes in fair value included in net profit or loss of the period in they arise.

Hedge accounting – cash flow hedges

The Company entered into interest rate swaps agreement in December 2009 (with maturity in December 2012) and interest rate swaps agreement in September 2011 (with maturity in June 2016) and designates these swaps as cash flow hedges. At the inception of the hedge relationship, the Company documents the relationship between the hedging instrument and the hedged item. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is highly effective in offsetting changes in fair values or cash flows of the hedged item. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line as the recognised hedged item. Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

Derivative financial instruments are initially measured at fair value on the contract date, and are remeasured to fair value at subsequent reporting dates. The derivative financial instruments are distinguished in accordance with 3-level hierarchy identifying the inputs used in calculation of their fair value.

A derivative is a financial instrument or other contract which fulfils the following conditions:

- its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract;
- it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and
- it is settled at a future date.

(p) Cash-settled share-based payment

In 2007, the Company entered into a Share price bonus scheme for its Senior Management and Board Members. The scheme is a cash-settled payment transaction, in which the Company acquires services of key personnel by incurring liabilities to the supplier of those services for amounts that are based on the price of the Company's shares. The scheme is realized through phantom options, which vest annually. The service period equals the vesting period and the services are correspondingly accounted for as they are rendered by the counterparty during the vesting period.

The Company measures the liability arising from the phantom options at fair value at each reporting date. The changes in the fair value of these liabilities are recognized in the statement of comprehensive income for the period.

The fair value of the phantom options is determined by:

- Pricing model
- Expected life assumption / participant behaviour
- Current share price
- Expected volatility
- Expected dividends
- Risk-free interest rate

(q) Trade and other receivables

Trade receivables are measured at amortised cost using the effective interest method, less any impairment. Interest income is recognized by applying the effective interest rate, except for short-term trade receivables (which do not carry any interest) when the recognition of interest would be immaterial.

(r) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, bank accounts and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

(s) Borrowings

Interest-bearing bank loans

Interest-bearing bank loans and overdrafts are initially measured at fair value, and are subsequently measured at amortized cost, using the effective interest rate method.

Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognized over the term of the borrowings using the effective interest rate method.

(t) Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the management's best estimate of the expenditure required to settle the obligation at the balance sheet date, and are discounted to the present value where the effect is material.

(u) Trade payables

Trade payables are initially measured at fair value, net of transaction costs, subsequently measured at amortised cost using the effective interest method, except for short-term trade payables.

(v) Adoption of new and revised standards

Standards and Interpretations effective in the current period

The following new and revised Standards and Interpretations issued by the International Financial Reporting Interpretations Committee are effective for the current period.

These are:

– *Amendments to IFRS 1 and IFRS 7: Improving Disclosures about Financial Instruments* (effective for annual periods beginning on or after 1 July 2010). IFRS 1 was amended to exempt first-time adopters of IFRSs from providing the additional disclosures introduced by the March 2009 amendments to IFRS 7 Improving Disclosures about Financial Instruments. The amendments provide first-time adopters the same transitional provisions that the amendments to IFRS 7 provide to current IFRS preparers.
– *Amendments to IFRS 1 as part of Annual Improvements Project* (effective for annual periods beginning on or after 1 January 2011). The following amendments were incorporated – (i) accounting policy changes in the year of adoption for first-time adopters; (ii) deemed cost exemption – event-driven fair value measurements; and (iii) deemed cost exemption – entities subject to rate-regulation.

- *Amendments to IFRS 3 Business Combination – 2008* (effective for annual periods beginning on or after 1 July 2010). The amendments clarify the (i) measurement of non-controlling interests; (ii) un-replaced and voluntarily replaced share-based payment awards; and (iii) transitional requirements for contingent consideration from a business combination that occurred before the effective date of IFRS 3 (2008).
- *Amendments to IFRS 7 Financial Instruments: Disclosures* (effective for annual periods beginning on or after 1 January 2011). The amendments to IFRS 7 clarify the required level of disclosures about credit risk and collateral held and provide relief from disclosures previously required regarding renegotiated loans.
- *Amendments to IAS 1 Presentation of Financial Statements* (effective for annual periods beginning on or after 1 January 2011). The amendments to IAS 1 clarify that an entity may choose to present the required analysis of items of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.
- *IAS 24 (revised in 2009) Related Party Disclosures* (effective for annual periods beginning on or after 1 January 2011). The amendment modifies the definition of a related party and simplifies disclosures for government-related entities.
- *Amendments to IAS 27 Consolidated and separate financial statements – revised 2008* (effective for annual periods beginning on or after 1 July 2010). Clarifies that the amendments made to IAS 21, IAS 28 and IAS 31 should be applied prospectively (with the exception of paragraph 35 of IAS 28 and paragraph 46 of IAS 31, which should be applied retrospectively).
- *Amendments to IAS 32 Financial Instruments: presentation* (effective for annual periods beginning on or after 1 February 2010). The amendment addresses the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues were accounted for as derivative liabilities. The amendment requires that, provided certain conditions are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated.
- *Amendment to IAS 34 Interim Financial Reporting* (effective for annual periods beginning on or after 1 January 2011). Emphasises the principle in IAS 34 that the disclosure about significant events and transactions in interim periods should update the relevant information presented in the most recent annual financial report. Clarifies how to apply this principle in respect of financial instruments and their fair values as well.
- *Amendments to IFRIC 13 Customer Loyalty Programmes* (effective for annual periods beginning on or after 1 January 2010). Clarifies that the 'fair value' of award credits should take into account – (i) the amount of discounts or incentives that would otherwise be offered to customers who have not earned award credits from an initial sale; and (ii) any expected forfeitures.
- *Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement* (effective for annual periods beginning on or after 1 January 2011). The amendment applies in the limited circumstances when an entity is subject to minimum funding requirements and makes an early payment of contributions to cover those requirements. The amendment permits such an entity to treat the benefit of such an early payment as an asset.
- *IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments* (revised in 2009) (effective for annual periods beginning on or after 1 July 2010). IFRIC 19 provides guidance regarding the accounting for the extinguishment of a financial liability by the issue of equity instruments.

The adoption of these amendments to Standards and Interpretations has not led to significant changes in the Group's accounting policies.

Standards and Interpretations issued by IASB and adopted by the EU but not yet effective

At the date of authorization of these financial statements the following Standards and Interpretations were in issue but not yet effective. The Company has not opted for their early adoption. These include:

- *Amendment to IFRS 1 First-Time Adoption of Financial Statements – Removal of Fixed Dates for First-Time Adopter* (effective for annual periods beginning on or after 1 July 2011). The amendment to IFRS 1 replaces specific dates incorporated in certain IFRS 1 requirements with the date of transition to IFRSs. It also provides the guidance for entities emerging from severe hyperinflation.
- *Amendment to IFRS 7 – Enhanced Derecognition Disclosure Requirements* (effective for annual periods beginning on or after 1 July 2011). The amendment introduces enhanced disclosure requirements to IFRS 7 as part of its comprehensive review of off-balance sheet activities.
- *Amendment to IFRS 7 Disclosures-Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after 1 January 2013). The new disclosures will require entities to disclose gross amounts subject to rights of set-off, amounts set off in accordance with the accounting standards followed, and the related net credit exposure. This information will help investors understand the extent to which an entity has set off in its balance sheet and the effects of rights of set-off on the entity's rights and obligations.
- *IFRS 9 (as amended in 2010) Financial Instruments* (effective for annual periods beginning on or after 1 January 2015). IFRS 9 requires all recognised financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values. It also provides the guidance to financial liability accounting.
- *IFRS 10 Consolidated Financial Statements* (effective for annual periods beginning on or after 1 January 2013). IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess.
- *IFRS 11 Joint Arrangements* (effective for annual periods beginning on or after 1 January 2013). The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities.
- *IFRS 12 Disclosure of Interests in Other Entities* (effective for annual periods beginning on or after 1 January 2013). This standard covers the disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities.
- *IAS 27 Separate financial statements* (effective for annual periods beginning on or after 1 January 2013). The standard has been amended for the issuance of IFRS 10 but retains the current guidance for separate financial statements.
- *IAS 28 Investments in Associates and Joint Ventures* (effective for annual periods beginning on or after 1 January 2013). The standard has been amended for conforming changes based on the issuance of IFRS 10 and IFRS 11.
- *IFRS 13 Fair Value Measurement* (effective for annual periods beginning on or after 1 January 2013). The standard establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. It also defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements.
- *Amendments to IAS 1 Presentation of Other Comprehensive Income* (effective for annual periods beginning on or after 1 July 2012). The amendments require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories (i) items that will not be reclassified subsequently to profit or loss; and (ii) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

- *Amendments to IAS 12 Income Taxes* (effective for annual periods beginning on or after 1 January 2012). Amendments provide an exception to the general principles in IAS 12 that the measurement of deferred tax assets and deferred tax liabilities should reflect the tax consequences that would follow from the manner in which the entity expects to recover the carrying amount of an asset.
- *Amendments to IAS 19 Employee Benefits* (effective for annual periods beginning on or after 1 January 2013). The amendments require the recognition of changes in defined benefit obligations and in fair value of plan assets when they occur, and hence eliminate the 'corridor approach' permitted under the previous version of IAS 19 and accelerate the recognition of past service costs.
- *IAS 32 Financial Instruments: Offsetting Financial Assets and Financial Liabilities* (effective for annual periods beginning on or after 1 January 2014). The amendments clarify – (i) the meaning of 'currently has a legally enforceable right of set-off'; and (ii) that some gross settlement systems may be considered equivalent to net settlement.
- *IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine* (effective for annual periods beginning on or after 1 January 2013). The Interpretation clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods.

The Entity has elected not to adopt these standards, revisions and interpretations in advance of their effective dates. The Entity anticipates that the adoption of these standards, revisions and interpretations will have no material impact on the financial statements of the Entity in the period of initial application.

Standards and Interpretations issued by IASB but not yet adopted by the EU
European Commission has not adopted as at date of the approval of these Financial Statements the following revised Standards:

Standards:
- *IFRS 9 Financial Instruments*
- *IFRS 10 Consolidated Financial Statements*
- *IFRS 11 Joint Arrangements*
- *IFRS 12 Disclosures of Interests in Other Entities*
- *IFRS 13 Fair Value Measurement*
- *IAS 27 Separate Financial Statements*
- *IAS 28 Investments in Associates and Joint Ventures*

Amendments:
- *Deferred tax: Recovery of Underlying Assets (Amendments to IAS 12)*
- *Severe Hyperinflation and Removal of Fixed Dates for First-Time Adopters (Amendments to IFRS 1)*
- *Presentation of Items of Other Comprehensive Income (Amendments to IAS 1)*
- *Amendments to IAS 19 Employee Benefits*
- *Disclosures–Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)*
- *Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32)*
- *Government Loans (Amendments to IFRS 1)*

Interpretations:
– *IFRIC Interpretation 20: Stripping Costs in the Production Phase of a Surface Mine*

The Entity anticipates that the adoption of these standards, amendments to the existing standards and interpretations will have no material impact on the financial statements of the Entity in the period of initial application.

4. Financial risks, investment risks and capital management

The Company is exposed to the financial risks connected with its operations as follows:
– credit risk, regarding its normal business relations with customers;
– liquidity risk, with particular reference to the availability of funds and access to the credit market;
– market risk (primarily relating to exchange rates, interest rates), since the Company operates at an international level in different currencies and uses financial instruments depending on interest rates.

When managing its financial risks, the Group concentrates on the unpredictability of financial markets and endeavours to minimise potential negative effects on the results of operations.

The following paragraphs provide qualitative and quantitative disclosure on potential effects of these risks upon the Company.

Credit risk
The vast majority of sales are on credit to customers. Risks arising from the provision of credit are fully covered by insurance policies in respect of individual customers' receivables or by receiving advanced payments from customers.

The maximum credit risk to which the Group is theoretically exposed is represented by the carrying amounts stated for trade and other receivables in the balance sheet, totalling TEUR 36,866 as at 31 December 2011 (TEUR 31,280 as at 31 December 2010), of which 87% represents trade receivables (88% as at 31 December 2010).

Overview of trade and other receivables according to due date

	2011		2010	
		% of total		% of total
Not yet overdue	33,424	90.7%	29,279	93.6%
Overdue less than 1 month	2,671	7.2%	1,552	5.0%
Overdue more than 1 month	771	2.1%	449	1.4%
Total	36,866	100.0%	31,280	100.0%

In 2011 the Company created provision for overdue receivables in the amount of TEUR 52. In 2010 the Group wrote off overdue receivables in the amount of TEUR 77. The insurance proceeds related to this write-off amounted to TEUR 71.

The present customer mix concentration of the Company reflects the situation in the final consumer market, which is divided among a small number of end producers, each having a substantial market share. The top five customers represented a 78% share of total revenues in 2011 (79% in 2010). The trade receivables of top five customers as at 31 December 2011 amounted to 70% of all trade receivables (74% as at 31 December 2010).

Liquidity risk

Liquidity risk arises if the Company is unable to obtain the funds needed to carry out its operations under current economic conditions.

In order to reduce the liquidity risk, the Company optimises the management of funds as follows:
- maintaining an adequate level of available liquidity;
- obtaining adequate credit lines;
- monitoring future liquidity on the basis of business planning.

Liquidity risk Analysis

The following tables detail the Group's expected maturity for its non-derivative financial assets and remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets and based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The financial liabilities part of the table includes both interest and principal cash flows.

2011	Interest rate as at 31 December	Less than 6 months	6 months–2 years	2 years–5 years	5+ years	Total
Financial assets:						
Non-interest bearing	--	33,638	--	--	--	33,638
Financial liabilities:						
Non-interest bearing	--	27,152	--	--	--	27,152
Variable interest rate instrument	1,3,6M EURIBOR + margin grid from 1.3 to 2.4%	3,076	8,470	141,418	--	152,964
Fixed interest rate instrument	5%	2,916	--	--	--	2,916

2010	Interest rate as at 31 December	Less than 6 months	6 months–2 years	2 years–5 years	5+ years	Total
Financial assets:						
Non-interest bearing	--	29,656	--	--	--	29,656
Fixed interest rate instrument	0.70%	4,557	--	--	--	4,557
Financial liabilities:						
Non-interest bearing	--	6,778	--	--	--	6,778
Variable interest rate instrument	1,2,3,6M EURIBOR +1.2% (1.25%)	4,091	98,129	--	--	102,220
Fixed interest rate instrument	5%	2,443	--	--	--	2,443

Weighted average payment days of issued invoices were 64 days in 2011 (62 days in 2010). Adequate days of received invoices were 18 days in 2011 (20 days in 2010).

Management believes that the funds and available credit lines described in Note 5x), in addition to the funds that are generated from operating activities, will enable the Company to satisfy its requirements resulting from its investment activities and its working capital needs.

The following table details the Group's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted net cash inflows/(outflows) on the derivative instrument that settle on a net basis. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to the projected interest rates as illustrated by the yield curves existing at the reporting date.

2011	Less than 6 months	6 months–2 years	2 years–5 years	5+ years
Net settled:				
Interest rate swaps	(127)	(1,155)	(388)	--

2010	Less than 6 months	6 months–2 years	2 years–5 years	5+ years
Net settled:				
Interest rate swaps	(320)	(529)	--	--

Market Risk

Market risk is the risk that the Company's income or the value of the financial instruments held are affected by changes in market prices, such as foreign exchange rates, interest rates and equity prices.

The Company is exposed to market risks from fluctuations in foreign currency exchange and interest rates.

Currency risk

Even though the Group carries out its production activities only in the Czech Republic and is currently building a new production plant in Egypt, it conducts business on an international level, which results in the exposure to currency risks in respect to both its operating and financial activities. The functional currency of PEGAS NONWOVENS s.r.o. and its subsidiaries is Czech Koruna (CZK). The Czech Koruna is the underlying functional currency of PEGAS NONWOVENS International s.r.o. as well. The functional currency of PEGAS NONWOVENS EGYPT LLC is United States Dollar. The underlying functional currency of PEGAS NONWOVENS SA is EUR. The presentation currency of PEGAS NONWOVENS SA's financial statements is EUR. The majority of operating activities such as revenues and operating costs are carried out in EUR. The majority of financial activities (such as repayment of loans and interest) are also carried out in EUR. Presentation currency of the consolidated financial statements is EUR as described in Note 3b.

The Company is in general exposed to exchange rate risks impacting income and cash flows.

Income statement

Trading

Due to significant amount of sales and purchases in EUR, appreciation of CZK against EUR impacts consolidated cash flows negatively and vice versa. This effect is presented in the table on pages 66 and 67 under item Trading.

Depreciation and amortization

The depreciation and amortization is carried in CZK, subsequently impacting Income statement results presented in EUR.

Financial result

The Company is currently exposed to potential changes in income statements mainly due to unrealized foreign exchange gains and losses resulting from the revaluation of balance sheet items (bank loans, intercompany loans, cash, trade receivables and trade payables). There is no cash flow impact of the unrealized foreign exchange gains and losses.

Corporate income tax

Unrealised foreign exchange gains and losses are taxable in the Czech Republic.

Cash flow

Trading

Majority of sales, purchases and entire debt servicing is paid in EUR, which results in natural hedging of the Group's activities by cash flows in these currencies. Despite the natural hedging, there is some disproportion between inflows and outflows of specific currencies (mainly CZK) representing the cash flow exposure to currency risk. Therefore FX rate changes influence the above mentioned trading as well as the cash flows.

Corporate income tax

Corporate income tax mentioned above influences also the cash flows.

Overview of income statement items by currency in 2011

	EUR	CZK	Other
Revenues	98%	2%	0%
Operating expenses (excl. depreciation and amortization)	87%	13%	0%
Depreciation and amortization	0%	100%	0%
Finance costs	100%	0%	0%
Corporate income tax	0%	100%	0%

Overview of income statement items by currency in 2010

	EUR	CZK	Other
Revenues	89%	11%	0%
Operating expenses (excl. depreciation and amortization)	87%	13%	0%
Depreciation and amortization	0%	100%	0%
Finance costs	100%	0%	0%
Corporate income tax	0%	100%	0%

The Group did not use any foreign exchange derivatives to reduce currency risk neither as at 31 December 2011 nor as at 31 December 2010.

The Company is exposed mainly to the fluctuation risk of the CZK/EUR exchange rate. Changes in other exchange rates would have no material impact on the Company.

Sensitivity analysis

Potential impact from instantaneous appreciation or depreciation of CZK against EUR by 10% is detailed in the following table.

Appreciation of CZK/EUR FX rate by 10%

		2011	2010
Cash flow statement	Trading	(1,553)	99
	Corporate income tax*	(2,986)	(2,276)
	Total	(4,539)	(2,177)
Income statement	Trading	(1,553)	99
	Depreciation	(1,024)	(1,817)
	Unrealized FX gains from BS revaluation	15,715	11,979
	Corporate income tax*	(2,986)	(2,276)
	Total	10,152	7,985

* Corporate income tax calculation excludes impact of changes in Trading due to investment incentives.

Depreciation of CZK/EUR FX rate by 10%

		2011	2010
Cash flow statement	Trading	1,270	(81)
	Corporate income tax*	--	--
	Total	1,270	(81)
Income statement	Trading	1,270	(81)
	Depreciation	838	1,487
	Unrealized FX losses from BS revaluation	(12,858)	(9,801)
	Corporate income tax*	--	--
	Total	(10,750)	(8,395)

* Corporate income tax calculation excludes impact of changes in Trading due to investment incentives.

The higher potential impact from FX rate volatility on Trading in 2011 is caused by a decrease of revenues denominated in CZK. Lower potential currency movement effect on depreciation in 2011 is evoked by the prolonged estimated lifetime of technology and related lower reported depreciation. The higher potential influence from the FX revaluation of BS items in 2011 is mainly driven by the higher outstanding balance of bank debt.

Interest rate risk

The Company is exposed to interest rate risk resulting from bank loans bearing variable interest rates. The Company makes use of a 5-year syndicated loan of EUR 180 million, which bears a variable interest rate.

In order to manage the interest rate risks, the Company concluded two interest rate swaps (IRS). For details refer to Note 5aa).

Sensitivity analysis

To assess the potential impact of changes in interest rates, the Company calculates the hypothetical gains or losses from bank loans unsecured by IRS at the back of changed interest expenses on an annually basis. At the same time the Company would be impacted by change of fair value of the IRS.

Based on the bank loan balance and cash and cash equivalents as at 31 December 2011 and instantaneous and a parallel increase of the EUR yield curve by 1% p.a., the loss from increased net interest expenses would reach TEUR 296 on an annual basis (TEUR 209 as at 31 December 2010). The increase of the yield curve by 1% p.a. would increase the fair value of the IRS by approximately TEUR 3,482 as at 31 December 2011 (approx. TEUR 1,078 as at 31 December 2010).

The instantaneous and parallel decrease of the EUR yield curve by 1% p.a. would lead to savings from decreased net interest expenses in the amount of TEUR 296 on an annual basis (TEUR 209 as at 31 December 2010) and the fair value of the IRS would decrease by approximately TEUR 3,820 as at 31 December 2011 (approx. TEUR 1,130 as at 31 December 2010). Higher potential impact on fair value of the IRS as at 31 December 2011 is driven by newly concluded swaps during the year.

Investment risks

In 2011, the Company decided to build a new production plant in Egypt. In order to eliminate the potential risk factors connected with this investment, PEGAS entered into an insurance contract with the Export Guarantee and Insurance Corporation (hereafter "EGAP"). The insurance contract includes insurance of the investment against the risk of prevention of the transfer of returns, expropriation or politically motivated violent damage. EGAP is 100% owned by the Czech Republic and its primary purpose is the support of exports and the provision of insurance services to exporters of Czech products, services and investments.

Capital management

The Company's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, and
- to provide an adequate return to shareholders commensurately with the level of risk.

The Company manages the amount of capital and capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to reduce debt.

The Company does not define any level of capital, however management closely monitors the risks in connection with capital inadequacy and is prepared to change the level of capital as stated above.

The company is not subject to externally imposed capital requirements.

5. Notes to the consolidated financial statements

a) Revenue

Product groups

	2011		2010	
		% of total		% of total
Hygiene Sales				
Hygiene – specialty	32,371	19.5	30,505	20.6
Hygiene – other	112,788	68.0	99,477	67.1
Total hygiene	145,159	87.5	129,982	87.7
Non-hygiene	20,689	12.5	18,168	12.3
Total sales	165,848	100.0	148,150	100.0

Markets

	2011		2010	
		% of total		% of total
Domestic sales	30,931	18.7	31,770	21.4
Export	134,917	81.3	116,380	78.6
Total	165,848	100.0	148,150	100.0

Split into Domestic sales and Export is made up by perspective of operating companies.

b) Segment reporting

Based on analysis of IFRS 8, the Group identified one operating segment, the production of nonwoven textiles.

Geographical distribution of revenue is defined as follows:

Region	2011	2010
Western Europe	87,481	85,920
Central and Eastern Europe	68,449	53,745
Russia	3,677	2,992
Others	6,241	5,493
Total	165,848	148,150

In presenting information on the basis of geographical distribution of revenue, revenue is based on the place of real delivery of the goods.

All non-current assets are located in the Czech Republic, except for property plant and equipment located in Egypt in the amount of TEUR 13,578.

c) Raw materials, consumables and services used

	2011	2010
Raw materials consumed	99,364	84,341
Consumed spare parts and repairs	3,142	3,496
Energy consumed	8,655	8,006
Other consumables	6,114	5,109
Other services	2,396	2,675
Total raw materials and consumables used	119,671	103,627

High amounts in “Other consumables” in both 2011 and 2010 are driven by the resale of nonwoven products from other producer and the corresponding recognition of costs for these goods.

“Raw materials consumed” represent 83.0% of the total amount of raw materials, consumables and services used in 2011 (81.4% in 2010).

d) Other operating income / (expense) net

	2011	2010
Gain on the sale of equipment	26	92
Insurance proceeds	97	297
Insurance cost	(573)	(483)
Other taxes	(46)	(45)
Other income	1,062	893
Other operating income / (expense) net total	566	754

"Other income" includes also grants for research and development received from the Czech Ministry of Industry and Trade.

e) Research and development

In 2011, the Group invested TEUR 2,347 in research, of which expenses for raw materials for product testing amounted to TEUR 1,777.

In 2010, research expenses were TEUR 2,063. The most significant part represents expenditure on raw materials for product testing in the amount of TEUR 1,506.

f) Average number of employees, executive and non-executive directors of the Group and expenses

2011	Average number of employees	Total	Wages and salaries	Remuneration of Board members	Cash-settled share-based payments	Social security and health insurance expenses	Social expenses
Employees	409	7,789	5,689	--	--	1,955	145
Executives and Non-executives	5	541	200	347	(73)	64	3
Total	414	8,330	5,889	347	(73)	2,019	148

2010	Average number of employees	Total	Wages and salaries	Remuneration of Board members	Cash-settled share-based payments	Social security and health insurance expenses	Social expenses
Employees	374	7,048	5,200	--	--	1,713	135
Executives and Non-executives	6	948	195	431	256	63	3
Total	380	7,996	5,395	431	256	1,776	138

Three executive directors, Mr. Řezáč, Mr. Klaška and Mr. Rašík and two non-executive directors, Mr. Modecki and Mr. Everitt were members of the Company's board as at 31 December 2010.

There were no changes in the Company's board during 2011.

Executive directors may use the Company's cars for private purposes.

Apart from phantom share options the Board members did not receive any loans, advances or any other benefit in kind in both 2011 and 2010.

g) Cash-settled share-based payment for executive managers and non-executive directors

The Annual General Meeting held on 15 June 2007 approved the grant of an aggregate amount of 230,735 phantom options to six senior executive managers and two non-executive directors, for no consideration. The Grant date of the phantom options was 24 May 2007. Each phantom option, when exercised, will grant the manager the right to receive cash calculated as closing price of one company share on the Prague stock exchange (the PSE) (or other market if the PSE trading is discontinued) on the day preceding the day of exercise of the phantom option less CZK 749.20 representing the offer price at the time of the initial public offering of the shares of PEGAS NONWOVENS SA (the IPO price). 25% of the phantom options vest yearly, with the first options vesting on the 1st anniversary of the IPO, i.e. on 18 December 2007 and the last options vesting on the 4th anniversary of the IPO. The given part of phantom options may be exercised on or after the vesting date. The participant shall provide service to the Group at the vesting date to be eligible for the given phantom options series.

The Annual General Meeting held on June 15, 2010 approved the grant of an aggregate amount of 230,735 phantom options (representing 2.5% of the PEGAS's share capital) to the directors and senior management of the Company and/or its affiliates, against no consideration. Each phantom option, when exercised, will grant the director the right to receive in cash an amount equal to the difference between CZK 473.00 representing the PEGAS's share price on the PSE as of 15 December 2009 increased by 10%, and the closing price of one PEGAS's share on the day preceding the day of exercise of the phantom option on the PSE (or other market if the PSE trading is discontinued). 25% of phantom options (i.e. 57,684 options) will vest yearly, with the first options vesting on December 18, 2010 and the last options vesting on December 18, 2013. The first options vesting on December 18, 2010 fully replaced the last portion of options of the first share price bonus plan, approved at the Annual General Meeting held on June 15, 2007, vesting at the same date. Therefore the right for remaining 34,008 options (with vesting date on December 18, 2010) granted in 2007 and approved by the Annual General Meeting held on June 15, 2007 was abandoned. Entitled rights for part of phantom options granted in 2007 expired due to leave of former directors of the Company.

Summary of the contractual terms of the phantom option scheme as at 31 December 2010:

Grant date	Vesting date	Strike price (CZK)	Total number of options granted	Number of options granted to Executives	Number of options granted to Non-executives	Unallocated options	Fair value of options granted (TEUR)	Fair value of options granted to Executives (TEUR)	Fair value of options granted to Non-executives (TEUR)	Fair value of unallocated options (TEUR)
24 May 2007	18 Dec 2007	749.2	50,664	39,126	11,538	--	97	75	22	--
24 May 2007	18 Dec 2008	749.2	41,432	29,896	11,536	--	82	59	23	--
24 May 2007	18 Dec 2009	749.2	34,008	22,472	11,536	--	67	44	23	--
15 June 2010	18 Dec 2010	473	57,684	42,220	15,464	--	173	127	46	--
15 June 2010	18 Dec 2011	473	57,684	31,501	11,538	14,645	58	32	12	14
15 June 2010	18 Dec 2012	473	57,684	31,501	11,538	14,645	31	17	6	8
15 June 2010	18 Dec 2013	473	57,683	31,501	11,538	14,644	22	12	4	6
Total			356,839	228,217	84,688	43,934	530	366	136	28

Summary of the contractual terms of the phantom option scheme as at 31 December 2011:

Grant date	Vesting date	Strike price (CZK)	Total number of options granted	Number of options granted to Executives	Number of options granted to Non-executives	Unallocated options	Fair value of options granted (TEUR)	Fair value of options granted to Executives (TEUR)	Fair value of options granted to Non-executives (TEUR)	Fair value of unallocated options (TEUR)
24 May 2007	18 Dec 2007	749.2	50,664	39,126	11,538	--	57	44	13	--
24 May 2007	18 Dec 2008	749.2	41,432	29,896	11,536	--	48	34	14	--
24 May 2007	18 Dec 2009	749.2	34,008	22,472	11,536	--	39	25	14	--
15 June 2010	18 Dec 2010	473	57,684	42,220	15,464	--	114	83	31	--
15 June 2010	18 Dec 2011	473	57,684	42,220	15,464	--	104	76	28	--
15 June 2010	18 Dec 2012	473	57,684	31,501	11,538	14,645	57	31	12	14
15 June 2010	18 Dec 2013	473	57,683	31,501	11,538	14,644	35	19	7	9
Total			356,839	238,936	88,614	29,289	454	312	119	23

The Annual General Meeting held on June 15, 2010 authorised and empowered the Board of Directors to allocate the above mentioned phantom options between the directors and senior management in accordance with criteria determined by, and at the discretion of, the Board of Directors. Out of 230,735 phantom options approved by the Annual General Meeting held on June 15, 2010, 14,645 phantom options with vesting date on December 18, 2011 and on December 18, 2012 and 14,644 phantom options with vesting date on December 18, 2013 was not allocated as at 31 December 2010.

In 2011, Board of Directors decided to hand out the unallocated phantom options with vesting date on December 18, 2011 pro rata to current members (based on their phantom options holdings).

No phantom shares were exercised neither in 2011 nor 2010.

The fair value of the phantom options as at 31 December 2011 is TEUR 454 (TEUR 530 as at 31 December 2010). The executive directors benefit is TEUR 312 (366 as at 31 December 2010) of the total amount and the non-executive directors benefit is TEUR 119 (136 as at 31 December 2010) of the total amount. The decrease of the fair value in 2011 is attributable mainly to the decrease of volatility of PEGAS NONWOVENS SA share price and decrease of the share price itself.

The Black-Scholes pricing model was used to calculate the fair value of the phantom options. The assumptions used in the model are as follows:

- Price of PEGAS NONWOVENS SA shares quoted in Prague Stock Exchange used (CZK 457.00 as at 31 December 2011, CZK 468.00 as at 31 December 2010)
- The participants are expected to exercise the given part of granted phantom options within ten years from vesting.
- Risk free interest rate is linearly interpolated from CZK interbank PRIBOR rates (<12M) and CZK interest rate swap points (>12M).
- Standard deviation for the whole period from the IPO is used for the volatility of shares calculation (33.38% in 2011, 35.90% in 2010).

h) Depreciation and amortization expense

	2011	2010
Depreciation of tangible assets	9,167	16,315
Amortization of intangible assets	46	38
Total	9,213	16,353

i) Foreign exchange gains and other financial income

	2011	2010
Realized and unrealized foreign exchange gains	10,050	11,264
Other financial income	118	38
Total	10,168	11,302

j) Foreign exchange losses and other financial expenses

	2011	2010
Realized and unrealized foreign exchange losses	14,403	4,916
Other financial expense	78	69
Total	14,481	4,985

Other financial expense includes mainly bank fees.

k) Interest income

	2011	2010
Interest income	24	16

The item includes interest income on bank accounts and term deposits.

l) Interest expense

	2011	2010
Interest and debt settlement expenses on loans and borrowings	3,883	2,967
Interest on employee deposits	133	108
Other	265	225
Total	4,281	3,300

Borrowing costs in the amount of TEUR 347 were capitalized in connection with construction of the new production line in 2011 as a part of this asset (TEUR 84 in 2010).

m) Income tax (expense) / income

	2011	2010
Current income tax	(2,106)	(2,053)
Deferred income tax	(2,211)	1,194
Total	(4,317)	(859)

The changes in deferred tax are described in Note 5z).

Effective tax rate

	2011	% of total	2010	% of total
Profit before income tax	18,283		21,898	
Income tax calculated using the enacted tax rate	3,474	19.0%	4,161	19.0%
Effect of consolidation and IFRS adjustments that do not have impact on deferred tax	(5)	(0.0%)	(7)	(0.0%)
Effect of tax incentives	(1,439)	(7.9%)	(3,729)	(17.0%)
Effect of items deductible from the tax base	(8)	(0.0%)	(41)	(0.2%)
Effect of unrecognized deferred tax asset in the Czech Republic	2,119	11.6%	3	0.0%
Effect of the difference between the tax rate in the Czech Republic and Luxembourg and effect of unrecognized deferred tax asset relating to PEGAS NONWOVENS SA in Luxembourg	181	1.0%	389	1.8%
Other effects	(5)	(0.0%)	83	0.4%
Total income tax / effective tax rate	4,317	23.6%	859	3.9%

Four companies of the Group have received investment incentives in the Czech Republic. PEGAS – DS a.s. was granted investment incentives in the regime preceding the Act on Incentives, receiving a grant from the state to pay income tax. The Company does not account for the total tax liability but reports the tax liability less the expected amount of the subsidy. PEGAS-NT a.s., PEGAS – NW a.s. and PEGAS – NS a.s. were granted an investment incentive after the effective date of the Act on Incentives. PEGAS-NT a.s. recognizes the grant for income tax as a tax discount and does not account for the total tax liability. PEGAS – NW a.s. started making use of the incentive in 2008. PEGAS – NS a.s. was granted an investment incentive in January 2009. Investment incentives for PEGAS – DS a.s. expired in 2010 and this company ceased to exist following its merger with PEGAS NONWOVENS s.r.o. with effect from 1 January 2011.

To translate the maximum amount of investment incentives into EUR, the CZK/EUR 25.80 rate of exchange effective on 31 December 2011 was used.

	Max. percentage of expended amount used as corporate tax relief	Max. amount in million CZK	Max. amount in million EUR	Corporate tax relief for	First year of usage of corporate tax relief
PEGAS-NT a.s.	45%	509.9	19.8	10 years	2005
PEGAS – NW a.s.	48%	573.6	22.2	10 years	2008
PEGAS – NS a.s.	30%	403.5	15.6	10 years	Not yet

Investment incentives are tax savings granted by the government provided certain conditions have been fulfilled (such as level of incremental investments) by the Group. When considering the principle of prudence and the fact that the amount of a subsidy depends on the actual economic performance, the companies do not account for any deferred tax asset that arise from investment incentives and correspond to income tax subsidies. The estimate of the unrecognized asset would not be reliable.

Since nearly all taxable income was generated from the operating activity in the Czech Republic, the tax rate of 19% (19% in 2010) in the Czech Republic was used to calculate the total income tax.

n) Earnings per share

The calculation of basic earnings per share as at 31 December 2011 was based on the net profit attributable to equity holders of TEUR 13 966 and a weighted average number of ordinary shares in 2011. Diluted earnings per share are calculated based on a weighted average number of shares in circulation (determined similarly as in the case of basic earnings per share) adjusted by the effect of the expected issue of all potential diluted securities, i.e. the effect of convertible loan notes in the case of the Group. Convertible bonds are the bonds with a right to convert to ordinary shares. The basic and diluted earnings per share as at both 31 December 2011 and 31 December 2010 are equal due to the fact, that the Group does not have any agreement at the balance sheet date which will cause a potential future issue of securities. No changes to the number of shares occurred during either 2011 or 2010.

No non-controlling interests in subsidiary companies were recognized as at December 31, 2011 and December 31, 2010.

Weighted average number of ordinary shares

2010	Number of outstanding shares in 2010	Weighted average
January–December	9,229,400	9,229,400

2011	Number of outstanding shares in 2011	Weighted average
January–December	9,229,400	9,229,400

Basic earnings per share

		2011	2010
Net profit attributable to equity holders	TEUR	13,966	21,039
Weighted average number of ordinary shares	Number	9,229,400	9,229,400
Basic earnings per share	EUR	1.51	2.28

Earnings Per Share (EPS) is calculated as net profit for the year attributable to equity holders of the Company divided by weighted average of the number of shares existing each day in the given year.

Diluted earnings per share

		2011	2010
Net profit attributable to equity holders	TEUR	13,966	21,039
Weighted average number of ordinary shares	Number	9,229,400	9,229,400
Diluted earnings per share	EUR	1.51	2.28

o) Property, plant and equipment

	Land and buildings	Production machinery	Other equipment	Under construction	Prepayments	Total
Acquisition cost						
Balance at 1/1/2010	39,059	118,868	10,368	202	349	168,846
Additions	252	381	1,440	2,968	4,497	9,538
Disposals	(13)	(137)	(140)	--	(365)	(655)
Transfers	--	143	--	(143)	--	--
Exchange differences	2,193	6,668	594	37	57	9,549
Balance at 31/12/2010	41,491	125,923	12,262	3,064	4,538	187,278
Additions	2,209	43,096	3,127	4,305	9,911	62,648
Disposals	--	--	(171)	--	(4,626)	(4,797)
Transfers	2,966	148	--	(3,114)	--	--
Exchange differences	(1,434)	(5,646)	(491)	29	88	(7,454)
Balance at 31/12/2011	45,232	163,521	14,727	4,284	9,911	237,675
Accumulated depreciation						
Balance at 1/1/2010	4,885	52,296	2,800	--	--	59,981
Depreciation expense	1,244	13,910	1,161	--	--	16,315
Disposals	--	(137)	(104)	--	--	(241)
Exchange differences	285	3,058	167	--	--	3,510
Balance at 31/12/2010	6,414	69,127	4,024	--	--	79,565
Depreciation expense	1,303	6,748	1,116	--	--	9,167
Disposals	--	--	(171)	--	--	(171)
Exchange differences	(245)	(2,307)	(160)	--	--	(2,712)
Balance at 31/12/2011	7,472	73,568	4,809	--	--	85,849
Net book value						
1/1/2010	34,174	66,572	7,568	202	349	108,865
31/12/2010	35,077	56,796	8,238	3,064	4,538	107,713
31/12/2011	37,760	89,953	9,918	4,284	9,911	151,826

p) Intangible assets and goodwill

	Software and other intangible assets	Goodwill	Total
Acquisition cost			
Balance at 1/1/2010	384	87,668	88,052
Additions	41	--	41
Disposals	(5)	--	(5)
Exchange differences	21	4,915	4,936
Balance at 31/12/2010	441	92,583	93,024
Additions	297	--	297
Disposals	(15)	--	(15)
Exchange differences	(26)	(2,656)	(2,682)
Balance at 31/12/2011	697	89,927	90,624
Accumulated amortization			
Balance at 1/1/2010	178	--	178
Amortization expense	38	--	38
Disposals	(4)	--	(4)
Exchange differences	10	--	10
Balance at 31/12/2010	222	--	222
Amortization expense	46	--	46
Disposals	(15)	--	(15)
Exchange differences	(8)	--	(8)
Balance at 31/12/2011	245	--	245
Net book value			
1/1/2010	206	87,668	87,874
31/12/2010	219	92,583	92,802
31/12/2011	452	89,927	90,379

On 14 December 2005, the Group acquired full control over the activities of PEGAS a.s. (now PEGAS NONWOVENS s.r.o.) and its subsidiaries.

The goodwill arising on this acquisition is attributable primarily to customer relationships, management skills, the skills and technical talent of the acquired workforce, the reputation for quality and the anticipated future profitability of the combined group. The management was not able to measure reliably the fair value of customer related intangibles due to the fact that demand from individual customers cannot be reliably predicted.

The Company tested the possible goodwill impairment as at 31 December 2011 and 2010. The management has determined that for goodwill testing purposes all acquired subsidiaries are considered as one cash generating unit. The recoverable amount of this single cash-generating unit is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by the management covering a four-year period, and a discount rate varying from 11.4% to 11.6% per annum (2010: from 11.3% to 12.1% per annum). Cash flow projections during the budget period are based on past experience. The cash flows beyond that four-year period have been extrapolated using a conservative 0% (2010: 0%) per annum growth rate and a discount rate of 12.1% per annum (2010: 12.1% per annum). The growth rate used in the calculation is lower compared with the long-term estimated growth of the nonwoven market in Europe. The management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

The key assumptions used in the value in use calculations are as follows:

Demand from the customers – In the past, PEGAS was able to sell 100% of its production capacity related to a cash generating unit. The management believes that the planned almost full utilization of the production facilities for the next four years is reasonably achievable.

Budgeted gross margin – Average gross margins at an absolute level per unit slightly decreased in the last three years. Management expects in terms of margins a similar pattern in the budgeted period.

Based on the above mentioned calculation, no impairment of goodwill was recognized neither in 2011 nor 2010.

q) Inventories

	2011	2010
Materials	7,511	6,544
Products	7,047	5,047
Semi-finished products	559	901
Spare parts	2,484	2,180
Other	23	69
Total	17,624	14,741

"Spare parts" include items with a useful life shorter than one year or of immaterial individual value.

r) Current trade and other receivables

	2011	2010
Receivables from sales of products	33,638	29,656
Advance payments	132	97
Tax receivables	2,786	1,292
Prepaid expenses	123	201
Other	187	34
Total	36,866	31,280

s) Cash and cash equivalents

	2011	2010
Cash in hand	33	38
Current accounts	6,215	90
Time / overnight deposits	--	4,557
Total	6,248	4,685

Relatively high level of cash and cash equivalents in both 2011 and 2010 is driven by capital expenditures connected with the new production lines. No time/overnight deposits as at 31 December 2011 were used as there were no available attractive cash placement opportunities.

t) Share capital

Until November 2006, the Company's share capital consisted of 12,500 shares at EUR 10 per share. In November 2006, this number was split into 100,806 shares at EUR 1.24 per share.

Subsequently, on 28 November 2006, the Company increased the share capital by EUR 9,075,056.56 by incorporation of debt into capital and by issuing 7,318,594 shares at EUR 1.24 per share. Pamplona Capital Partners I, LP acquired 7,133,109 shares and some of the Group's management 185,485 shares.

Within the issue of shares in the public market, in December 2006 the Group issued 1,810,000 new ordinary shares. These newly issued shares were subscribed by investors at EUR 27 per share.

The difference between the subscribed value of the newly issued shares (EUR 27) and the nominal value (EUR 1.24) was recorded in equity as share premium in the total amount of TEUR 46,626.

The total number of shares as at 31 December 2006 was 9,229,400 shares at EUR 1.24 per share.

In July 2007 the Company's principal shareholder Pamplona Capital Partners I, LP placed its whole stake held in the Company to qualified investors on the Prague and Warsaw Stock Exchanges.

No changes to the number of shares occurred either in 2011 or 2010.

u) Retained earnings

In 2011 retained earnings were adjusted by TEUR 151 in respect of dividend distribution. For details about Distribution refer to Note 5v). There were no dividends from retained earnings paid in the year ended 31 December 2010.

v) Share premium

On 27 October 2011, the Company distributed EUR 9,229,400 or EUR 1.00 per share (EUR 8,767,930 or EUR 0.95 per share on 29 October 2010) to its shareholders. The share premium account was reduced by TEUR 9,078 and retained earnings by TEUR 151.

w) Legal reserves

Legal reserves are obligatorily created from net profit after tax by the Czech and Luxembourg entities under the Czech and Luxembourg commercial law. These reserves are designed to cover the potential future losses or for overcoming of unfavourable future periods of time. The legal reserves are not distributable to shareholders.

x) Bank overdrafts and loans

In June 2011, the Company refinanced its previous senior bank debt taken on in 2007 with a 5-year loan totalling up to EUR 180 million. The new facilities consist of a revolving credit facility of up to EUR 165 million and of an overdraft facility of up to EUR 15 million.

The bank facilities are non-amortizing. There is no mandatory repayments schedule and the Company can manage the level of bank loan drawings according to its capital needs.

2011	Drawdown limit	Bank loan liability	Arrangement fees	Carrying amount	Current	Non-current	Interest rate	Interest rate at 31/12/2011
Revolving	165,000	127,000	(1,488)	125,512	--	125,512	1, 3, 6M EURIBOR + margin grid*	2.809%
Overdraft	15,000	361	(135)	226	226	--	1, 3, 6M EURIBOR + margin grid*	2.329%
Bank loans total	180,000	127,361	(1,623)	125,738	226	125,512		

2010	Drawdown limit	Bank loan liability	Arrangement fees	Carrying amount	Current	Non-current	Interest rate	Interest rate at 31/12/2010
Revolving	130,000	96,000	(550)	95,450	--	95,450	1, 2, 3, 6M EURIBOR + 1.2%	2.013%
Overdraft	20,000	873	(85)	788	788	--	1, 2, 3, 6M EURIBOR + 1.25%	2.058%
Bank loans total	150,000	96,873	(635)	96,238	788	95,450		

* Applicable margin grid depends on actual Net Debt/EBITDA ratio and range from 1.3% to 2.4%.

These bank loans are secured by:
1) the ownership interest in PEGAS NONWOVENS s.r.o.,
2) security over the enterprise of PEGAS NONWOVENS s.r.o.,
3) security over the plant and machinery of PEGAS NONWOVENS s.r.o.,
4) bank accounts of PEGAS NONWOVENS s.r.o. and
5) shares of subsidiaries PEGAS–NT a.s., PEGAS - NW a.s. and PEGAS - NS a.s.

The carrying amount of the bank loans approximates their fair value.

The revolving credit facility is divided into current and non-current liability based on management estimate. The estimate is based on cash-flow predictions. The overdraft facility is always treated as a current liability.

y) Other payables due after one year

The balance of other payables represents also the long term part of the phantom options scheme payables. As at 31 December 2011 the long term part of the phantom options amounted to TEUR 36 (TEUR 53 as at 31 December 2010).

z) Deferred tax

Deferred tax assets and liabilities

	Assets		Liabilities		Net	
	2011	2010	2011	2010	2011	2010
Property, plant and equipment		--	(12,580)	(11,012)	(12,580)	(11,012)
Inventories	163	147	--	--	163	147
Other	80	179	--	--	80	179
Deferred tax asset / (liability)	243	326	(12,580)	(11,012)	(12,337)	(10,686)
Offset of deferred tax assets and liabilities	(243)	(326)	243	326	--	--
Deferred tax asset / (liability)	--	--	(12,337)	(10,686)	(12,337)	(10,686)

The increase of deferred tax in the amount of TEUR 1,651 consists of deferred income tax of TEUR (2,211), the effect of the foreign exchange profit of TEUR 415 and the positive effect of changes in deferred tax derived from M-t-M revaluation of IRS recognized in equity in the amount of TEUR 145.

No deferred tax asset was recognized relating to the government incentives.

In accordance with accounting policy described in Note 3g, the deferred tax was calculated using the tax rates applied for the years in which the tax asset will be realized or the tax liability will be settled, i.e. 19% for year 2011 and for the following years (2010 – 19%).

aa) Current trade and other payables

	2011	2010
Trade payables	27,152	6,778
Advances received	2	23
Liabilities to employees	3,688	3,753
Deferred income	971	1,124
Fair value of interest rate swaps	1,700	935
Other	430	806
Total	33,943	13,419

The increase in Trade payables as at 31 December 2011 is attributable to the payables in connection with the new production line.

In December 2009 the Group entered into two interest rate agreements in order to hedge interest rate risk. The Company pays a fixed interest rate of 2.09% p.a. and receives the floating interest rate represented by 6M EURIBOR. The notional amount is non-amortized in the amount of TEUR 76,000. The swaps mature on 14 December 2012.

The Group concluded two new interest rate swaps in 2011. Under these contracts the Company pays a step up fixed interest rate and receives the floating interest rate represented by 3M EURIBOR. The notional amount is TEUR 22,000 until 14 December 2012 and TEUR 98,000 until 14 June 2016.

Structure of these new swaps is shown below:

Period	Notional amount (in TEUR)	Fixed Interest Rate
14/09/2011–14/12/2011	22,000	1.32%
14/12/2011–14/3/2012	22,000	1.32%
14/3/2012–14/6/2012	22,000	1.32%
14/6/2012–14/9/2012	22,000	1.42%
14/9/2012–14/12/2012	22,000	1.42%
14/12/2012–14/3/2013	98,000	1.52%
14/3/2013–14/6/2013	98,000	1.52%
14/6/2013–14/9/2013	98,000	1.62%
14/9/2013–14/12/2013	98,000	1.62%
14/12/2013–14/3/2014	98,000	1.72%
14/3/2014–14/6/2014	98,000	1.72%
14/6/2014–14/9/2014	98,000	1.82%
14/9/2014–14/12/2014	98,000	1.82%
14/12/2014–14/3/2015	98,000	1.92%
14/3/2015–14/6/2015	98,000	1.92%
14/6/2015–14/9/2015	98,000	2.02%
14/9/2015–14/12/2015	98,000	2.02%
14/12/2015–14/3/2016	98,000	2.12%
14/3/2016–14/6/2016	98,000	2.12%

Fair value of these swaps is determined by the EUR yield curve at the balance sheet date and the discounted cash flow method. The inputs used in the fair value calculation are categorized in accordance with IFRS 7 into level 2 of fair value hierarchy, i.e. inputs other than unadjusted quoted prices in active markets, however, these inputs are observable for the assets or liabilities, either directly (as prices) or indirectly (derived from prices).

Fair value of the swaps as at 31 December 2011 and 2010 was as follows:

Counterparty	2011	2010
Česká spořitelna – 2009 IRS	(586)	(491)
ING – 2009 IRS	(550)	(444)
Česká spořitelna – 2011 IRS	(313)	--
ING – 2011 IRS	(251)	--
Total	(1,700)	(935)

Fair value of the swaps represents the payable of the Company.
These swaps hedged 76.9% of the Group’s debts as at 31 December 2011 (78.5% as at 31 December 2010).

bb) Tax liabilities and other tax liabilities

	2011	2010
Employment tax	95	116
Corporate income tax liability reduced by income tax prepayments	--	1,618
Total	95	1,734

There is no corporate income tax liability as at 31 December 2011 as the tax advances paid for the year 2011 were higher than 2011 current income tax. In this respect, tax receivable is reported under the item Current trade and other receivables – see Note r)

cc) Group Entities

To translate the registered capital of subsidiaries, the CZK/EUR 25.800 and USD/EUR 1.2939 rate of exchange effective on 31 December 2011 was used.

Subsidiaries included in the consolidated entity

Company	Acquisition date	Share in the subsidiary	Registered capital TCZK/TUSD	Registered capital TEUR	Number and nominal value of shares
PEGAS NONWOVENS s.r.o. *	5. 12. 2005	100%	TCZK 3,633	140	100% participation of TCZK 3,633
PEGAS-NT a.s.	14. 12. 2005	100%	TCZK 550,000	21,318	54 shares at TCZK 10,000 per share and 10 shares at TCZK 1,000 per share
PEGAS – NW a.s.	14. 12. 2005	100%	TCZK 650,000	25,194	64 shares at TCZK 10,000 per share and 10 shares at TCZK 1,000 per share
PEGAS – NS a.s.**	3. 12. 2007	100%	TCZK 105,000	4,070	5 shares at TCZK 1,000 per share and 10 shares at TCZK 10,000
PEGAS NONWOVENS International s.r.o. ***	18. 10. 2010	100%	TCZK 200	8	100% participation of TCZK 200
PEGAS NONWOVENS EGYPT LLC ****	6. 6. 2011	100%	TUSD 5,000	3,864	100% participation of TUSD 5,000

* PEGAS NONWOVENS s.r.o. was registered on 14 November 2003 as ELK INVESTMENTS s.r.o and changed its name to PEGAS NONWOVENS s.r.o. in 2006. PEGAS a.s., the subsidiary of PEGAS NONWOVENS s.r.o., was established in 1990. It merged with PEGAS NONWOVENS s.r.o. with effect from 1 January 2006 and was deleted from the Commercial Register on 12 May 2006. CEE Enterprise a.s. merged with PEGAS NONWOVENS s.r.o. with effect from 1 January 2007 and was deleted from the Commercial Register on 20 August 2007. PEGAS – DS a.s., former subsidiary of PEGAS NONWOVENS s.r.o., ceased to exist following its merger with PEGAS NONWOVENS s.r.o. with effect from 1 January 2011.

** PEGAS – NS a.s. was established by the Company in December 2007 for the purpose of a new production line project.

*** PEGAS NONWOVENS International s.r.o. serves as a special purpose vehicle established for the purpose of making potential future investments.

**** PEGAS NONWOVENS EGYPT LLC was established for the purpose of executing the construction of a new production plant in Egypt.

6. Related parties transactions

Except for the information provided under Note 5f) and 5g) there were no other transactions between the Group and the executive or the non-executive directors.

7. Contingencies and commitments

The Group has no material contingencies or commitments which would not be reported in the balance sheet.

8. Subsequent events

On 29 March, 2012 the tenure of non-executive member of the Board of Directors, Mr. Neil J. Everitt, expired and he no longer sought to renew his mandate.

The management of the Group is not aware of any events that have occurred since the balance sheet date that would have any material impact on the consolidated financial statements as at 31 December 2011.

Marek Modecki
Chairman of the Board of PEGAS NONWOVENS SA

František Řezáč
Member of the Board of PEGAS NONWOVENS SA

9 Stand-alone Financial Statements

of PEGAS NONWOVENS SA for the year ended 31 December, 2011 and Independent Auditor's Report

REPORT OF THE REVISEUR D'ENTREPRISES AGREE

Deloitte.

Deloitte Audit
Société a responsabilité limitée
560, rue de Neudorf
L-2220 Luxembourg
B.P. 1173
L-1011 Luxembourg

Phone: +352 451 451
Fax: +352 451 452 992
www.deloitte.lu

To the Shareholders of
PEGAS NONWOVENS S.A.
68-70, boulevard de la Pétrusse
L-2320 Luxembourg

Report on the annual accounts

Following our appointment by the General Meeting of the Shareholders dated June 15, 2011, we have audited the accompanying annual accounts of PEGAS NONWOVENS S.A., which comprise the balance sheet as at December 31, 2011 and the profit and loss account for the year then ended, and a summary of significant accounting policies and other explanatory information.

Responsibility of the Board of Directors for the annual accounts

The Board of Directors is responsible for the preparation and fair presentation of these annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts, and for such internal control as the Board of Directors determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

Responsibility of the réviseur d'entreprises agréé

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the *Commission de Surveillance du Secteur Financier*. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the *réviseur d'entreprises agréé's* judgement, including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the réviseur d'entreprises agréé considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the annual accounts give a true and fair view of the financial position of PEGAS NONWOVENS S.A. as of December 31, 2011, and of the results of its operations for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts.

Report on other legal and regulatory requirements

The management report, which is the responsibility of the Board of Directors, is consistent with the consolidated financial statements.

The accompanying Corporate Governance Statement on pages 28–42 which is the responsibility of the Board of Directors, includes the information required by the law of 19 December 2002 on the commercial and companies register and on the accounting records and annual accounts of undertakings, as amended and the description included with respect to Article 68bis paragraphs c and d of the aforementioned law is consistent with the consolidated financial statements.

For Deloitte Audit, *Cabinet de révision agréé*

Nick Tabone, *Réviseur d'entreprises agréé*
Partner

April 12, 2012

BALANCE SHEET

as of December 31, 2011
(expressed in EUR)

Assets	Notes	2011	2010
Fixed assets:			
Financial assets:			
– Shares in affiliated undertakings	3	392,199.38	392,199.38
Current assets:			
Debtors:			
Amounts owed by affiliated undertakings:	4		
– becoming due and payable after less than one year		1,050.00	1,050.00
– becoming due and payable after more than one year		31,450,000.00	32,800,000.00
Other debtors becoming due and payable after less than one year		-	21,307.69
Cash at bank and in hand		186,588.48	54,096.79
		31,637,638.48	32,876,454.48
Prepayments and accrued income		4,880.97	61,724.88
		32,034,718.83	33,330,378.74

Liabilities	Notes	2011	2010
Capital and reserves:	5		
Subscribed capital		11,444,456.00	11,444,456.00
Share premium and similar premiums		5,462,594.20	14,691,994.20
Reserves:			
Legal reserve		684,877.01	349,050.73
Profit or loss brought forward		5,481,144.57	(899,554.69)
Result for the financial year		8,284,650.68	6,716,525.54
		31,357,722.46	32,302,471.78
Provisions:	6		
Other provisions		456,472.36	580,017.05
Non subordinated debts:			
Trade creditors becoming due and payable after less than one year		54,474.24	99,545.75
Tax and social security			
Tax		84,180.90	82,659.44
Social security		1,428.37	1,388.52
Other creditors becoming due and payable after less than one year		80,440.50	264,296.20
		220,524.01	447,889.91
		32,034,718.83	33,330,378.74

The accompanying notes form an integral part of these annual accounts.

PROFIT AND LOSS ACCOUNT

for the year ended 31 December, 2011
(Expressed in EUR)

	Notes	2011	2010
Charges:			
Other external charges		449,057.47	1,385,267.66
Other operating charges	7	476,815.21	659,710.33
Interest payable and similar charges			
Other interest payable and similar charges		17,296.64	18,059.64
Tax on profit or loss	8	1,575.00	(900.00)
Other taxes		62.00	(457.00)
Profit for the financial year		8,284,650.68	6,716,525.54
		9,229,457.00	8,778,206.17
Income:			
Income from financial fixed assets derived from affiliated undertakings	3	9,229,400.00	8,767,930.00
Other interests and other financial income other interest receivable and similar income		57.00	10,276.17
		9,229,457.00	8,778,206.17

The accompanying notes form an integral part of these annual accounts.

NOTES TO THE STAND-ALONE FINANCIAL STATEMENTS AS OF 31 DECEMBER 2011

(Expressed in EUR)

NOTE 1 – GENERAL

PEGAS NONWOVENS S.A. (the "Company") is a commercial company incorporated in Luxembourg on 18 November 2005, under the legal form of a "Société anonyme". The registered office of the Company is at 68-70, boulevard de la Pétrusse, L-2320 Luxembourg and the Company is registered with the Luxembourg Trade and Companies Register under the section B number 112.044.

The object of the Company is to take participations and interests, in any form whatsoever, in any commercial, industrial, financial or other, Luxembourg or foreign enterprises; to acquire any securities and rights through participation, contribution, underwriting firm purchase or option, negotiation or in any other way and namely to acquire patents and licences, and other property, rights and interest in property as the Company shall deem fit, and generally to hold, manage, develop, sell or dispose of the same, in whole or in part, for such consideration as the Company may think fit, and in particular for shares or securities of any company purchasing the same; to enter into, assist or participate in financial, commercial and other transactions, and to grant to any holding company, subsidiary, or fellow subsidiary, or any other company associated in any way with the Company, or the said holding company, subsidiary or fellow subsidiary, in which the Company has direct or indirect financial interest, any assistance such as e.g. pledges, loans, advances or guarantees; to borrow and raise money in any manner and to secure the repayment of any money borrowed; to borrow funds and issue bonds and other securities; and to perform any operation which is directly or indirectly related to its purpose. The Company can perform all commercial, technical and financial operations, connected directly or indirectly in all areas as described above in order to facilitate the accomplishment of its purpose.

The Company also prepares consolidated financial statements, which are published according to the provisions of the law, and are available at the registered office.

The accounting year begins on 1 January and ends on 31 December.

The Company entered into an initial public offer to list shares on both Prague Stock Exchange (PSE) and Warsaw Stock Exchange (WSE) on 21 December 2006.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The layout of the balance sheet and of the profit and loss account, particularly as regards the form adopted for their presentation, has been changed in order to respect the layout introduced by the law dated 10 December 2010.

Certain items of the balance sheet and profit and loss account as of 31 December 2010 have been reclassified to ensure the comparability with figures as of 31 December 2011.

The Company maintains its books in Euro ("EUR") and the annual accounts have been prepared in conformity with generally accepted accounting principles in Luxembourg including the following significant accounting policies:

a) Financial assets

Financial assets are stated at historical acquisition cost. Dividends are recognized when they are declared by the affiliated undertaking. Write-downs are recorded if, in the opinion of management, a permanent impairment in value has occurred.

b) Foreign currency translation

Monetary assets and liabilities stated in currencies other than EUR are translated at the exchange rates prevailing at the balance sheet date. Income and expenses denominated in foreign currency have been translated at the exchange rate prevailing at the transaction date. Realized and unrealized exchange losses and realized exchange gains are recorded in the statement of profit and loss account.

c) Debtors

Debtors are recorded at nominal value less any value adjustment for doubtful accounts.

d) Cash-settled share-based payment

In 2007, the Company entered into a Share price bonus scheme for its Board Members and the key personnel of its subsidiaries. The scheme is a cash-settled payment transaction, in which the Company acquires services of key personnel by incurring liabilities to the supplier of those services for amounts that are based on the price of the Company's shares. The scheme is realized through Phantom options, which vest yearly, with the first options vesting on the 1st anniversary of the IPO, i.e. on 18 December 2007 and the last options vesting on the 4th anniversary of the IPO.

In 2010, the Share price bonus scheme was extended until 18 December 2013.

The Company measures the provision arising from the phantom options at fair value at each reporting date, the changes in the fair value are recognized in the profit and loss account for the period.

The fair value of the Phantom options is determined by:
- Pricing model,
- Expected life assumption/ participant behaviour,
- Current share price,
- Expected volatility,
- Expected dividends,
- Risk-free interest rate.

NOTE 3 – SHARES IN AFFILIATED UNDERTAKINGS

On 5 December 2005 the Company acquired 100 shares of CEE Enterprise a.s., a joint stock company incorporated in the Czech Republic, for an amount of CZK 2,248,190 (EUR 78,737.44).

On 18 January 2006, the Company decided to increase the share capital of CEE Enterprise a.s. by an amount of CZK 1,600,000 by the issuance of 1,600,000 new shares with a nominal value of CZK 1.00 each and also decided to subscribe for 1,510,000 shares for an amount of CZK 1,510,000 (EUR 51,855.29), the remaining 90,000 new shares being subscribed by six new shareholders.

On 28 November 2006, the Company acquired 90,000 shares of CEE Enterprise a.s. for an amount of EUR 253,220.03.

During 2007, PEGAS NONWOVENS s.r.o. a company incorporated in the Czech Republic, wholly owned subsidiary of CEE Enterprise a.s. decided to merge with and absorb CEE Enterprise a.s. with effect on 1 January 2007.

During the year 2010, the Company acquired 100% of the shares of PEGAS NONWOVENS International s.r.o. a company incorporated in the Czech Republic, for an amount of CZK 200,000.00 (EUR 8,386.62).

As of 31 December 2011, the Company held the following participations:

Name of the Company	Country	Percentage of ownership	Acquisition cost (EUR)	Shareholders' equity (ths. CZK)	Result for the year (ths. CZK)
PEGAS NONWOVENS s.r.o.	Czech Republic	100.00%	383,812.76	2,181,877	227,464
PEGAS NONWOVENS International s.r.o.	Czech Republic	100.00%	8,386.62	(17,555)	(30,622)
			392,199.38	2,164,322	196,842

The shareholders equity includes the result for the year. The shareholders equity and result for the year are based on the audited annual accounts for the year ended 31 December 2011.

The general meeting of PEGAS NONWOVENS s.r.o., the Company's subsidiary, decided to distribute a dividend to the Company for an aggregate amount of EUR 9,229,400.00.

The participation in PEGAS NONWOVENS s.r.o. has been pledged to secure the bank loans taken out by subsidiary companies (Note 10).

NOTE 4 – AMOUNTS OWED BY AFFILIATED UNDERTAKINGS

On 13 December 2005, the Company granted a loan to PEGAS NONWOVENS s.r.o. for an amount of EUR 39,768,950. This loan bore interest at a rate of 10.00% per annum and was repayable on 14 December 2035 at the latest. On 29 November 2006, the loan including accrued interest was replaced by a new loan granted by the Company to PEGAS NONWOVENS s.r.o. for an amount of EUR 43,525,943.70. The new loan granted bears no interest and is repayable on 1 December 2056.

During the year ended 31 December 2011, the Company has received partial reimbursements for an aggregate amount of EUR 5,950,000.00.

As of 31 December 2011, the outstanding principal amount of this loan amounted to EUR 25,400,000.00 (2010: EUR 31,350,000.00). This loan bears no interest and is repayable on 29 November 2056.

On 30 January 2007, the Company granted an additional loan to PEGAS NONWOVENS s.r.o. for an amount of EUR 1,250,000.00. This loan bears no interest and is repayable on 30 January 2057 or at the request of the subsidiary convertible into shares or funds of the subsidiary as a contribution outside the registered capital.

On 24 December 2010, the Company granted a loan to PEGAS NONWOVENS International s.r.o. for an amount of EUR 200,000.00. This loan bears no interest and is repayable on 15 December 2015, or earlier upon request by the borrower.

On 25 April 2011, the Company granted a loan to PEGAS NONWOVENS International s.r.o. for an amount of EUR 2,800,000.00. This loan bears no interest and is repayable on 15 April 2016, or earlier upon request by the borrower.

On 22 September 2011, the Company granted a loan to PEGAS NONWOVENS International s.r.o. for an amount of EUR 1,800,000.00. This loan bears no interest and is repayable on 22 September 2016, or earlier upon request by the borrower.

NOTE 5 – CAPITAL AND RESERVES

a) Subscribed capital and share premium

The Company was incorporated with a share capital amounting to EUR 125,000 represented by 12,500 shares with a par value of EUR 10.00 each, fully paid-in.

On 28 November 2006, the shareholders of the Company decided to split the existing 12,500 shares with a par value of EUR 10.00 each into 100,806 shares with a par value of EUR 1.24 each. Consequently, the share capital of the Company was reduced by an amount of EUR 0.56 which was allocated to the Company's share premium account.

Also on 28 November 2006, the shareholders of the Company decided to increase the share capital by an amount of EUR 9,075,056.56 together with a share premium amounting to EUR 118.20, by the issuance of 7,318,594 shares with a par value of EUR 1.24 each, by way of a contribution in kind.

Within the issue of shares in the public market, in December 2006 the Group issued 1,810,000 new ordinary shares. These newly issued shares were subscribed by investors at EUR 27 per share.

The difference between the subscribed value of newly issued shares (EUR 27) and the nominal value (EUR 1.24) was recorded in equity as share premium in the total amount of EUR 46,625,600.

As a result of the share premium distributions made on 27 September 2007, on 25 September 2008 on 24 September 2009, on 25 October 2010 and on 24 October 2011 for an aggregate amount of respectively EUR 7,014,344.00, EUR 7,844,990.00, EUR 8,306,460.00, EUR 8,767,930.00 and EUR 9,229,400.00, the share premium account amounted to EUR 5,462,594.20 as of 31 December 2011 (2010: EUR 14,691,994.20).

As of 31 December 2011, the share capital of the Company amounted to EUR 11,444,456.00 represented by 9,229,400 shares with a par value of EUR 1.24 each, fully paid-in.

	Share capital EUR	Share premium EUR	Legal reserve EUR	Result brought forward EUR	Result for the year EUR
Balance at January 1, 2011	11,444,456.00	14,691,994.20	349,050.73	(899,554.69)	6,716,525.54
Appropriation of profit or loss					
– Share premium distribution in 2011	-	(9,229,400.00)	-	-	-
– Allocation of prior year result	-	-	335,826.28	6,380,699.26	(6,716,525.54)
– Profit for the year ended December 31, 2011	-	-	-	-	8,284,650.68
Balance at December 31, 2011	11,444,456.00	5,462,594.20	684,877.01	5,481,144.57	8,284,650.68

b) Legal reserve

Under Luxembourg law an amount equal to at least 5% of the net profit must be allocated annually to a legal reserve until such reserve equals 10% of the share capital. This reserve is not available for dividend distribution.

As of 31 December 2011, the legal reserve amounted to EUR 684,877.01 (2010: EUR 349,050.73)

NOTE 6 – PROVISIONS

The Annual General Meeting held on 15 June 2007 approved the grant of an aggregate amount of 230,735 phantom options to six senior executive managers and two non-executive directors, for no consideration. The grand date of the phantom options was 24 May 2007. Each phantom option, when exercised, will grant the manager the right to receive cash calculated as closing price of one company share on the Prague stock exchange (the PSE) (or other market if the PSE trading is discontinued) on the day preceding the day of exercise of the phantom option less CZK 749.20 representing the offer price at the time of the initial public offering of the shares of PEGAS NONWOVENS S.A. 25% of the phantom options vest yearly, with the first options vesting on the 1st anniversary of the IPO, i.e. on 18 December 2007 and the last options vesting on the 4th anniversary of the IPO.

As a result of the departure of two senior executive managers in 2008, the aggregate number of options granted decreased to 174,960 as of 31 December 2008.

The aggregate number of options granted decreased to 160,112 as of 31 December 2009 due to departure of one member of the board of directors in 2009.

The Annual General Meeting held on 15 June 2010 approved the grant of an aggregate amount of 230,735 phantom options (representing 2.5% of the PEGAS's share capital) to the directors and senior management of the Company and/or its affiliates, against no consideration. Each phantom option, when exercised, will grant the director the right to receive in cash an amount equal to the difference between CZK 473.00 representing the PEGAS's share price on the PSE as of 15 December 2009 increased by 10%, and the closing price of one PEGAS's share on the day preceding the day of exercise of the phantom option on the PSE (or other market if the PSE trading is discontinued). 25% of phantom options (i.e. 57,684 options) will vest yearly, with the first options vesting on 18 December 2010 and the last options vesting on 18 December 2013, whereas the first options vesting on 18 December 2010 will fully replace the last options of current share price bonus plan, approved at the Annual General Meeting held on 15 June 2007, vesting at the same date.

As of 31 December 2011, the aggregate number of options granted was 356,839 (2010: 356,839).

As of 31 December 2011, the fair value of the phantom option was EUR 456,472.36 (2010: EUR 529,853.68). The decrease of the fair value in 2011 of EUR 73,381.32 is attributable mainly to the decrease of the Company share price.

No phantom shares were exercised during the years 2007 to 2011.

In prior Year, an accrual for non-competition compensation relating to the departure of a director of the Company is also included in the line item "Provisions". As of 31 December 2011, the accrual for non-competition compensation amounted to EUR 0 (2010: EUR 50,163.37).

NOTE 7 – OTHER OPERATING CHARGES

The other operating charges are mainly made up of Directors' fees and costs.

NOTE 8 – TAXES

The Company is subject to all the taxes applicable to commercial companies in Luxembourg.

NOTE 9 – SUBSEQUENT EVENTS

The Board of the Company is not aware of any events that have occurred since the balance sheet date that would have any material impact on the consolidated financial statements as at 31 December 2011.

NOTE 10 – OFF BALANCE SHEET EVENTS

The participation in PEGAS NONWOVENS s.r.o. has been pledged to secure the bank loans taken out by subsidiary companies (Note 3).

10 Glossary

6th October City – is a satellite city near Cairo, Egypt. The city has a population of approximately half a million people and many companies have their regional headquarters located there.

Bi-Component Fibre (Bi-Co) – Man-made textile fibre consisting of two or more basic components (polymers). Typical cross sections of fibres are, for example, side by side, core and sheath (produced by PEGAS), islands in the sea, etc.

Bučovice – A town in Moravia in the Vyškov District with approximately 6,500 inhabitants. PEGAS operates three of its production lines there.

Budgeted EBITDA – A financial measure defined as revenues less cost of goods sold and selling, general, and administrative expenses set in the Company's business plan and used, as a benchmark number for performance evaluation in the management bonus scheme.

CEE – Central and Eastern Europe

Clearstream Bank – Clearstream is a leading European supplier of post-trading services, a subsidiary of Deutsche Börse. Clearstream International was formed in January 2000 through the merger of Cedel International and Deutsche Börse Clearing.

EBIT – Earnings Before Interest and Taxes – A financial measure defined as revenues less cost of goods sold and selling, general, and administrative expenses, and depreciation and amortization.

EBITDA – Earnings Before Interest, Taxes, Depreciation and Amortization – A financial measure defined as revenues less cost of goods sold and selling, general, and administrative expenses. Calculated as Net profit before income tax, interest expense, interest income, foreign exchange changes, other financial income/expense and depreciation and amortization.

EBIT Margin – Percentage margin calculated as EBIT / Revenues.

EBITDA Margin – Percentage margin calculated as EBITDA / Revenues.

EDANA – European Disposables and Nonwovens Association is the European Trade Association for the nonwovens and hygiene products converters industries with around 200 member companies in 28 countries.

EGAP – is the Export Guarantee and Insurance Corporation founded in June 1992 as a state-owned export credit agency, insuring credits connected with exports of goods and services from the Czech Republic against political and commercial risks. EGAP, now part of the state export support programme, provides insurance services to all exporters of Czech goods.

IFRS – International Financial Reporting Standards.

IPO – Initial Public Offering.

IRS – Interest Rate Swap. Financial instrument hedging interest rate risk.

John R. Starr – is a management consulting firm which has specialized in hygiene absorbent products, nonwoven products and key raw materials fields.

Meltblown Process – Technological process of producing nonwovens. Polymer is extruded into air gap nozzles and then blown in the form of very thin fibres (0.1–10 microns) on to a belt.

Meltblown Fabric – Textile produced using the meltblown process.

Net Profit Margin – Net earnings after income tax and before distribution to shareholders divided by total revenues.

Nonwoven Textile – A manufactured sheet, web or bat of directionally or randomly oriented fibres, bonded by friction, and/or cohesion and/or adhesion, excluding papers and products which are woven, knitted, tufted or stitchbonded incorporating binding yarns or filaments, or felted by wet milling, whether or not additionally needled.

Polymer – Substance composed of molecules with a large molecular mass composed of repeating structural units, or monomers, connected by covalent chemical bonds, i.e. a plastic.

Polypropylene / Polyethylene – Thermoplastic polymers consisting of long chains of monomers (propylene, ethylene), naturally hydrophobic, resistant to many chemical solvents, bases and acids. Produced mainly from crude oil by the chemical industry and used in a wide variety of applications.

Přímětice – Formerly an independent village, currently a suburb of Znojmo. PEGAS operates its main production facilities there.

PSE – Prague Stock Exchange, a regulated market for securities trading in the Czech Republic

PX – Official index of blue chip stock of the Prague Stock Exchange.

Reicofil – Leading nonwoven machinery producer.

Regranulation – Method for recycling scrap textile into granulate which can then be fully reused in the manufacturing process.

Spunmelt Process – Technological process of producing nonwovens. Hot molten polymer is forced through spinnerets to produce continuous filaments drawn by air to reach the required fibre diameter.

Spunbond Textile – Textile produced by spunbond/spunmelt process.

WSE – Warsaw Stock Exchange, a regulated market for securities trading in Poland.

11 Other Information

BASIC INFORMATION ON THE COMPANY

Name
PEGAS NONWOVENS SA

Address:
68-70, boulevard de la Pétrusse
L-2320 Luxembourg
Luxembourg
Tel: (+352) 26 49 65 27
Fax: (+352) 26 49 65 64

Registry and registration number:
Registered with the Luxembourg trade and companies register under number B 112.044

Incorporated:
18 November, 2005 under the name Pamplona PE Holdco 2 SA

Jurisdiction:
Luxembourg

The holding company of PEGAS, PEGAS NONWOVENS SA, was incorporated in Luxembourg as a public limited liability company (société anonyme) for an unlimited duration on 18 November, 2005 under the name Pamplona PE Holdco 2 SA and is registered with the Luxembourg trade and companies register under number B 112.044. The articles of incorporation of the Company have been published in the Mémorial, Recueil des Sociétés et Associations number C 440 of 1 March, 2006. The Company›s registered office is at 68 70, boulevard de la Pétrusse, L-2320 Luxembourg, Luxembourg. The registered office and principal place of business of the main operating and trading company, PEGAS NONWOVENS s.r.o., is at Přímětická 86, 66904 Znojmo, Czech Republic.

Scope of business (according to Article 3 of the Articles of Association):

The object of the Company is:

a) to take participation and interests, in any form whatsoever, in any commercial, industrial, financial or other, Luxembourg or foreign entities;
b) to acquire any securities and rights through participation, contribution, underwriting firm purchase or option, negotiation or in any other way and namely to acquire patents and licences, and other property, rights and interest in property as the Company shall deem fit, and generally to hold, manage, develop, sell or dispose of the same, in whole or in part, for such consideration as the Company may think fit, and in particular for shares or securities of any Company purchasing the same;
c) to enter into, assist or participate in financial, commercial and other transactions, and to grant to any holding Company, subsidiary, or fellow subsidiary, or any other Company associated in any way with the Company, or the said holding Company, subsidiary of follow subsidiary, in which the Company has a direct or indirect financial interest, any assistance as, e.g., pledges, loans, advances or guarantees;
d) to borrow and raise money in any manner and to secure the repayment of any money borrowed;
e) to borrow funds and issue bonds and other securities; and
f) to perform any operation which is directly or indirectly related to this purpose.

Principal Subsidiaries

Subsidiaries in which PEGAS NONWOVENS SA has a direct or an indirect interest amounting to at least 10% of the consolidated equity or 10% of the consolidated net profit:

Name	Registered Office	Identification number	Activity
PEGAS NONWOVENS s.r.o.	Znojmo, Přímětická 3623/86, PSČ 66904, Czech Republic	25478478	Production of nonwoven textiles
PEGAS–NT a.s.	Znojmo, Přímětická 3623/86, PSČ 66904, Czech Republic	26287153	Production of nonwoven textiles
PEGAS – NW a.s.	Znojmo, Přímětická 3623/86, PSČ 66904, Czech Republic	26961377	Production of nonwoven textiles
PEGAS – NS a.s.	Znojmo, Přímětická 3623/86, PSČ 66904, Czech Republic	27757951	Production of nonwoven textiles
PEGAS NONWOVENS International s.r.o.	Znojmo, Přímětická 3623/86, PSČ 66904, Czech Republic	29249708	Special purpose vehicle for potential investments
PEGAS NONWOVENS EGYPT LLC	Al Kamel Building, Plot 52/b, Sixth of October City, 00023, Egypt	Commercial registry No. 52 190	Company established for the execution of the new production plant project

Expenses of PEGAS Group related to external auditors services in year 2011

EUR thousands	Audit	Other*	Total
PEGAS NONWOVENS SA	18.0	23.1	41.1
Other companies within PEGAS Group	109.4	26.5	135.9
Total	127.4	49.6	177.0

* Item "Other" includes also expenses for advisory services, which are not directly linked to audit.

Other Corporate Information

The issued capital of the Company amounts to EUR 11,444,456, being divided into 9,229,400 shares with a par value of EUR 1.24 each; and the authorised capital of the Company amounts to EUR 999,999.24 being divided into 806,451 shares with a par value of EUR 1.24 each.

The rules of appointment and dismissal of the members of the Board of Directors are described in Article 8 of the Articles of Association of the Company.

The power of the Board of Directors to issue shares is governed by the fourth, fifth and sixth paragraphs of Article 5 of the Articles of Association of the Company.

The Company is not a party to any significant agreement which takes effect, alters or terminates upon a change of control of the Company following a takeover bid.

The subsidiaries of the Company are parties to credit agreement which may be terminated upon a change of control of the Company, e.g. following a takeover bid. A change of control occurs if any person or group of persons acting in concert gains ownership of more than 50 per cent of the issued voting share capital of the Company or PEGAS NONWOVENS s.r.o. or acquires the right to direct the management and the policies of the Company or PEGAS NONWOVENS s.r.o. by the appointment of directors to the Board of Directors.

All shares issued by PEGAS have one vote and carry equal voting dividend rights, there are no shares with special control rights or limitations on their transfer.

There are no agreements between shareholders known to the Company which may result in restrictions on the transfer of securities and/ on voting rights.

The Company and the operating companies have not created and do not currently intend to create a share option plan for the benefit of their employees other than those described in chapter Remuneration of Directors and Management (see page 33).

The Company is party to service agreements with its executive directors, which provide for compensation if the executive director is made redundant for other reasons than for breach of his obligations. Each executive director is entitled to receive from the Company his monthly remuneration (but not bonus) which he would be entitled to receive from all companies of the PEGAS Group under all service agreements in the year preceding the year when all such service agreements were terminated, until the earlier of (i) the expiry of the period of three years following the date of such termination and (ii) the date of the executive director entering into any form of employment, directorship, or other form of service relationship with a third party.

The Company is not a party to any other agreements with its Board members or employees providing for compensation if they resign or are made redundant without valid reason or if their employment ceases because of a takeover bid.

STATEMENTS OF RESPONSIBLE PERSONS

Marek Modecki, Chairman of the Board of PEGAS NONWOVENS SA
František Řezáč, Member of the Board of PEGAS NONWOVENS SA,

hereby declare that, to the best of their knowledge, the financial statements prepared in accordance with the applicable set of accounting standards give a true view of assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole and that the management report includes a fair view of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

Marek Modecki
Chairman of the Board of PEGAS NONWOVENS SA

František Řezáč
Member of the Board of PEGAS NONWOVENS SA

CONTACTS

PEGAS NONWOVENS SA
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68-70, boulevard de la Pétrusse
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Luxembourg

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PEGAS NONWOVENS s.r.o.
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ID No.: 25478478

PEGAS-NT a.s.
Znojmo, Přímětická 3623/86, PSČ 66904
ID No.: 26287153

PEGAS - NW a.s.
Znojmo, Přímětická 3623/86, PSČ 66904
ID No.: 26961377

PEGAS - NS a.s.
Znojmo, Přímětická 3623/86, PSČ 66904
ID No.: 27757951

PEGAS NONWOVENS International s.r.o.
Znojmo, Přímětická 3623/86, PSČ 669 04
ID No.: 29249708

PEGAS NONWOVENS EGYPT LLC
Al Kamel Building, Plot 52/b, Sixth
of October City. 00023, Egypt
Registration number:
Commercial registry No. 52 190

Design, production, print: ENTRE s.r.o.

www.pegas.lu